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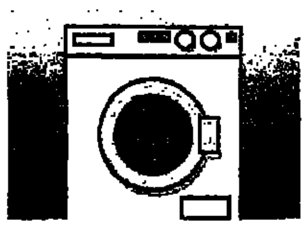

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Electric motorcycles could clear the air
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The impact of IT on financial services
Survey, Separate section

World Business Newspaper http://www.FT.com WEDNESDAY JULY 2 1997

New HK leader vows to uphold 'social freedoms'

Hong Kong's post-colonial leader, Tung Chee-hwa, outlined plans to safeguard the region's economic competitiveness, in his inaugural address made within hours of the handover to China. Mr Tung said his policy priorities would be education and housing, and pledged to uphold social freedoms and maintain the rule of law. **Page 14; Education and housing, Page 4; Barry Riley, Page 15; Observer, Page 13**

Viacom, Sumner Redstone's entertainment empire, issued its second profit warning of the year and announced a charge of about $300m to help resolve troubles at its international Blockbuster video rental chain. **Page 15**

Stet to unveil AT&T link-up: Stet, the Italian tele-communications group due to be privatised in the autumn, will today announce its long-awaited strategic alliance with AT&T, the largest US telecommunications company. **Page 15; Stet faces suit over Cuban link, Page 16**

Race finding against Goldman Sachs: The US investment bank discriminated against a black American bond salesman employed in its London offices because of his race, a UK industrial tribunal has found. James Curry claimed his salary had been cut and he had been passed over for promotion before being made redundant because of his racial origins.

Eta hostage freed: Cosme Delclaux, a member of a wealthy Spanish business family who has been held hostage by the Basque terrorist organisation Eta since November, was released after his family was reported to have paid Pta1bn ($6.9m).

Coca-Cola, US soft drinks company, expects to report a 7 to 8 per cent increase in the volume of drinks sold in the second quarter, compared with the same period last year. **Page 16**

Nycomed agrees UK merger: Norway's Nycomed and Amersham International of the UK are to merge in a deal that creates one of the world's biggest medical diagnostics groups. The company, Nycomed Amersham, will be based in the UK. **Page 15; Lex, Page 14**

Japanese cancer drug toll hits 94: At least 94 Japanese cancer patients have died from the side-effects of a popular cancer treatment after the Japanese health ministry underplayed the drug's risks. **Page 14**

Chirac keeps up Nato pressure: French president Jacques Chirac will continue to press the US for a bigger European role inside Nato as a precondition for France rejoining the alliance's integrated military command, his officials said yesterday. **Page 2**

Arafat in Mideast peace plea: Palestinian leader Yassir Arafat called on European nations to help break the deadlock in Middle East peace moves because he believes the United States "is not doing anything".

Yeltsin attacked on daughter's role:

Gennady Seleznyov, head of Russia's lower house of parliament, accused President Boris Yeltsin (left) of illegal nepotism for appointing his daughter – who has become increasingly influential in Kremlin circles – as his official Kremlin image-maker. He said the decree naming Tatyana Dyachenko, 37, as adviser to the president, contradicted Russia's civil service law.

EU move on financial services: The European Union offered to eliminate most of the remaining restrictions in the financial services sector, improving prospects for talks on a global agreement in services. **Page 6**

Cyprus talks: President Glafcos Clerides and Rauf Denktash are to hold talks near New York, the first direct contact between the respective leaders of the Greek Cypriot and Turkish Cypriot communities in three years. **Page 2**

Screen star Mitchum dies: Robert Mitchum, the brawny, blunt-spoken actor who starred in more than 100 films, died in his sleep at his California home. He was 79. Mitchum had been suffering from emphysema and was diagnosed a few months ago with lung cancer.

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■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7717.35	(+44.50)
NASDAQ Composite	1436.37	(-5.70)
Europe and Far East		
CAC40	2944.04	(+85.78)
DAX	3819.85	(+34.08)
FTSE 100	4728.3	(+123.7)
Nikkei	20,178.52	(-429.44)

■ US LUNCHTIME RATES

Federal Funds	6%
3-mth Treas Bills: Yld	5.218%
Long Bond	98½
Yield	6.734%

■ OTHER RATES

UK: 3-mo Interbank	6⅞%	(same)
UK: 10 yr Gilt	101⅝	(101¼)
France: 10 yr OAT	99.67	(99.28)
Germany: 10 yr Bund	102.59	(102.19)
Japan: 10 yr JGB	104.6927	(104.298)

■ NORTH SEA OIL (Argus)

Brent Dated	$18.665	(18.205)

■ GOLD

New York Comex		
(Jul)	$334	(334.2)
London:		
close	$334.85	(334.55)

■ DOLLAR

New York lunchtime		
£	1.6686	
DM	1.74225	
FFr	5.87325	
SFr	1.4610	
Y	114.88	
London:		
£	1.6682	(1.6643)
DM	1.7401	(1.7428)
FFr	5.8635	(5.8710)
SFr	1.4594	(1.4579)
Y	114.79	(114.43)
Tokyo close:	Y 114.92	

■ STERLING

DM	2.8884	(2.9001)

9 770174 736135 27

Boeing and McDonnell merger approved

US regulator concerned about exclusive contracts

By Nancy Dunne in Washington and Emma Tucker in Brussels

US regulators yesterday approved the $13.3bn merger of Boeing and McDonnell Douglas. The Federal Trade Commission nodded through the 10th largest US merger without conditions after concluding that McDonnell Douglas had ceased to be competitive in the international commercial jet market.

However, the FTC found Boeing's 20-year exclusive contracts with Delta, American and Continental airlines "potentially troubling" and warned it intended to monitor "the potential anti-competitive effects of these, and any, future long-term exclusive contracts".

The European Commission, which has threatened to declare the merger illegal, is also concerned about the contracts. The Commission is due to give its verdict on the merger on July 23.

Mr Karel Van Miert, the EU competition commissioner, is concerned about the impact on the market for commercial aircraft and is expected to demand substantial alterations.

Brussels is concerned that the merged company's access to military technology and funding could spill over to Boeing's commercial activities.

On Monday the Commission received Boeing's proposed remedies.

It will give its response on Friday to an advisory committee of competition experts but the Commission is under no obligation to follow the committee's advice.

The FTC said it had agreed to the merger after interviewing more than 40 airlines and other industry participants and concluding that "there is no economically plausible strategy that McDonnell Douglas could follow, either as a stand-alone concern or part of another concern".

It attributed the company's lack of competitiveness to its failure to invest sufficiently in new product lines, production facilities, company infrastructure or research and development.

"As a result, Douglas Aircraft's product line is not only very limited, but lacks the state of the art technology and performance characteristics that Boeing and Airbus have developed," it said.

Plans for the merger were announced in December after McDonnell Douglas lost a bid to build the next generation of military jets and American Airlines announced that it would replace its McDonnell Douglas jets with Boeing aircraft.

However, it is expected to dominate jet sales to the US navy and demand is strong for its C-17 transport planes and fighter jets, helicopters and rocket launchers in the US and abroad.

The FTC denied speculation that it approved the merger because the US needed a company to serve as its "national champion" to compete internationally.

It said: "We do not have the discretion to authorise anti-competitive but 'good' mergers because they may be thought to advance the United States' trade interests. If that were thought to be the wise approach only Congress could implement it."

The "national champion" argument is "almost certainly a delusion", it said. The best way to increase exports and create jobs was to require US firms to compete at home and abroad.

Boeing and McDonnell Douglas yesterday said they expected the merger to be completed by August 1 and the new Boeing Company would begin operating on August 4.

Shares in both companies rose yesterday after the approval was announced.

At 12.45pm east coast time, Boeing shares were up $1⅛ at $54⅛ and McDonnell shares rose $1 to $69⅞.

BA/AA alliance, Page 19

Centre of attention: Theo Waigel backed the tough application of European monetary union convergence criteria Picture: Reuter

Kohl retreat over Emu criteria

By Graham Bowley and Andrew Fisher in Frankfurt, and Ralph Atkins in Bonn

German chancellor Helmut Kohl yesterday caved in to pressure from conservative coalition allies in Bavaria and ruled out fudging by even a tenth of one percentage point the public sector deficit criteria set for members of the planned European currency.

The German government also gave the strongest signal yet that the country's official debt would be converted into the euro, the planned European single currency, at the scheduled start date of economic and monetary union.

Speaking in Munich, Mr Kohl accepted the strict interpretation of criteria for economic monetary union urged by Mr Edmund Stoiber, the Bavarian prime minister, who has voiced widespread fears in Germany that the new Euro currency will not be as strong as the D-Mark.

Mr Kohl's unexpected concession on the interpretation of the criteria increases significantly the pressure on Germany, which is struggling to meet this year the public sector deficit target of 3 per cent of gross domestic product.

"Three or 3.0 per cent – that is not my problem," the chancellor said.

In addition, his comments will aggravate tension between Bonn and Paris. The French government has caused alarm in Bonn with its apparently lukewarm attitude towards bringing its public deficit as close as possible to the 3 per cent hurdle.

Meanwhile, Mr Jürgen Stark, state secretary in the finance ministry, said he would recommend to Mr Theo Waigel, finance minister, that government debt be denominated in the euro in January 1999, when Emu is due to start. He said a decision was likely to be taken before German politicians begin their summer break at the end of this month.

The redenomination would affect about DM450bn of German federal debt, but the final sum could be much more if individual sate authorities decide to follow suit, the Bundesbank said.

It would also be a significant fillip for the planned single European bond market and strengthen Germany's hopes that its bonds will be the benchmark in the pan-European capital market.

"As long as they didn't announce this, there was always some doubt about whether they thought [Emu] would go ahead," said Ms Alison Cottrell, economist at PaineWebber in London.

Germany's big banks have mounted a vociferous campaign to persuade the government to convert the debt in 1999 but the finance ministry has so far held back. It has come under pressure from Germany's small savings banks, which have complained that the cost of redenominating the debt would be too large.

Although countries joining Emu are not required to convert existing debt into the euro until 2001, several countries such as France and the Netherlands have already committed themselves to redenominating in January 1999, the scheduled start date.

Eurotunnel offered extension deal

By Charles Batchelor in London and Andrew Jack in Paris

The British and French governments yesterday reached a provisional agreement with Eurotunnel, the heavily indebted Channel tunnel company, to extend its operating concession from 65 to at least 99 years.

A deal would lift the prospects that the company's £8.5bn financial restructuring will be approved. If finalised, it would end a two-year stand-off between the governments and the company over the concession period.

The deal is subject to three conditions. First, Eurotunnel's shareholders, most of whom are French, and its bankers must approve the group's debt restructuring plan. Second, the company must agree to provide a share of its pre-tax profits to the two governments. Third, it must present plans for boosting its rail freight business.

The French government had already signalled its willingness to extend the concession, which is due to expire in 2052, but the British government held out for better terms. Announcement of the deal came ten days before an extraordinary shareholders meeting which will be asked to back the restructuring plan.

Mr John Prescott, UK deputy prime minister, said: "These have been tough negotiations but I believe we have achieved agreement on a reasonable way of taking them forward."

Mr Prescott said he had been under strong pressure to reach an agreement in time to influence shareholders' voting. "This is an amber light for further negotiations," he said. "They were shocked I wanted to bring in the issue of freight

Continued on Page 14
Liar's poker, Page 18

High German labour costs prompt tyre group switch

By Graham Bowley in Frankfurt

Continental, the world's fourth largest tyre manufacturer, is transferring almost half its car tyre production out of Germany in a radical cost-cutting restructuring aimed at rejuvenating its ailing truck tyre business.

The surprise move to shift more production to its factories in the Czech Republic and Portugal is the latest example of German industry seeking cheaper working conditions abroad because of expensive domestic labour costs.

The company said it would take a further decision this autumn on whether to close the Hanover factory affected by the reorganisation. It had struck a new agreement with the workforce that would increase working hours and make savings of up to DM35m ($20.30m) a year.

German industry is growing uneasy that it is falling behind in international competitiveness because of relatively inflexible and costly labour practices. Some unions have become more flexible, but Continental's and other similar decisions are likely to increase pressure for greater liberalisation.

Although Continental has this year enjoyed generally buoyant growth, its commercial tyre division has continued with losses, which Mr Hubertus von Grünberg, chairman, and his board have vowed to turn around.

The company said yesterday: "German labour is too expensive especially in the truck-tyre business. Korean and Japanese producers are attacking the European market with very aggressive prices and we need to compete on a labour cost basis."

The reorganisation will cut the workforce at the factory by about 200 to 2,500, but there could be more job losses if the factory is closed.

Mr Grünberg said he planned to close one of the company's factories in Germany, Belgium or Austria, but had not decided which.

Continental is in the process of closing by 2000 another factory in Hanover with a workforce of 2,500.

The company closed its plant in Dublin, in the Irish Republic, last year as part of shifting production from expensive regions in Europe and the US to lower-cost areas.

It said the latest reorganisation would allow it to focus more closely on its troubled commercial truck business. It said it especially wanted to boost commercial and passenger tyre production at its Czech factory where it employs 3,500.

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LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Robert Graham on a constitutional commission's recommendations

Italy's parties opt for compromise in search for stronger government

An Italian constitutional reform commission has proposed enhancing the power of the executive with a presidential system of government.

The proposal is an uneasy compromise between the demands of the rightwing opposition that wants a French-style presidential system and the majority of the ruling centre-left coalition which is anxious to boost the authority of the prime minister.

Some observers believe that unless it is refined in parliament the hybrid solution offers little more stability than the 1948 constitution which has led to more than 50 different governments.

"The commissioners have put together bits of incompatible institutional models, giving birth to a hybrid that is neither fish nor fowl," said Mr Antonio Martino, a former foreign minister.

The time-consuming procedures for approving constitutional reform in parliament provide the opportunity for substantial change over the next year and a half. There is a risk the reforms will come to nothing.

Mr Massimo D'Alema, the commission's chairman and leader of the Party of the Democratic Left (PDS), admitted yesterday the outcome could have been more constructive and that improvements should be made. The PDS leader failed to impose his preference for a strong British-style premiership.

The tilt toward the presidential system was the result of a "guerrilla" vote by the members of the populist Northern League. Having boycotted the commission, League members suddenly appeared to cast their votes on the day it was decided which executive system to recommend. The League's action was designed to embarrass Mr D'Alema and was decisive in providing a majority for a French-style presidential system.

The final proposals were voted on Monday with 51 for, nine against and three abstentions, the main opposition coming from the hardliners in Reconstructed Communism who feared that the introduction of a presidential system would open the way to an authoritarian figure. The 1948 constitution deliberately created a series of counter-balancing powers between the executive, legislature and judiciary to avoid a repetition of the Mussolini experience.

The proposal is for a directly elected president with a six-year term. He would have overall responsibility for defence and foreign policy and could dissolve parliament any time six months after a general election.

The president would choose the prime minister; but he would have to nominate the person heading the winning electoral coalition.

Matters are further confused by the commission deferring to the tradition of a powerful parliament. One fifth of the deputies would be able to present a no-confidence motion against the government which, if passed, would lead to the downfall of the government.

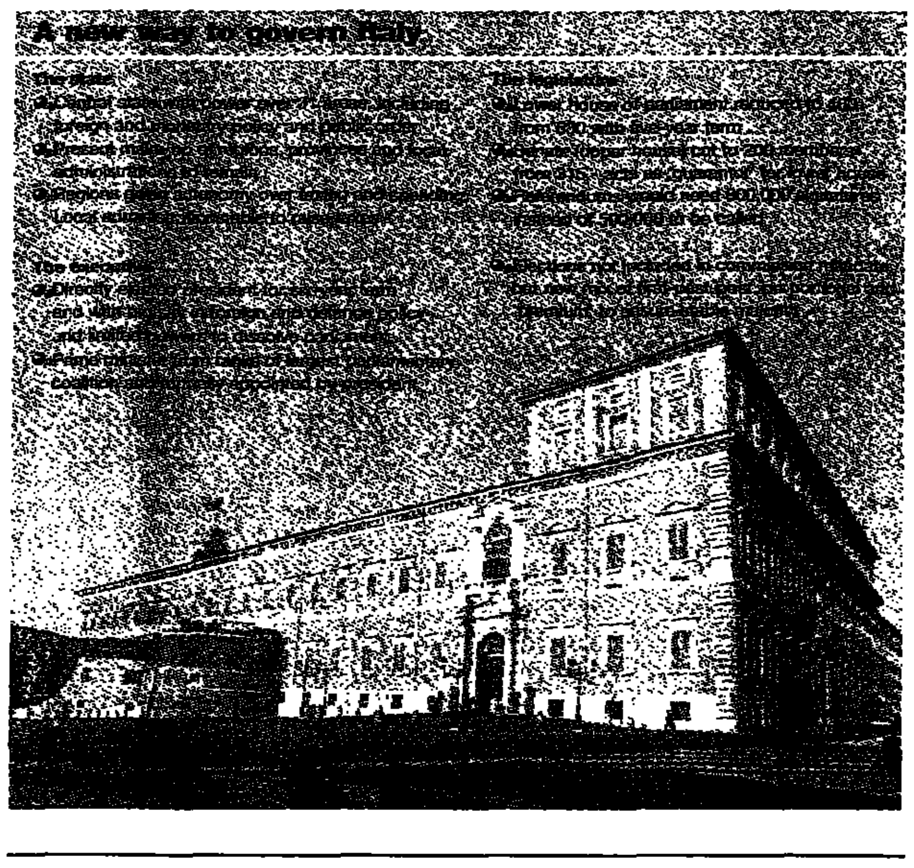
The issue of the electoral system remains unresolved. New electoral laws were not within the commission's strict remit. However, all the politicians are aware that much hinges on the type of parliamentary electoral system Italy has. The issue will be tackled in the autumn.

In non-binding discussions the small parties in the commission fought a successful rearguard action to retain the current 25 per cent of seats elected by proportional representation. The rightwing opposition also blocked full adoption of a French-style second round in parliamentary elections. The contorted compromise on the table is that the 25 per cent of proportional seats be retained, a majority of the first-past-the-post seats be elected with a second round run-off, with a "premium" of seats going to the coalition with the most votes. This is to ensure a parliamentary majority.

The chamber of deputies would have prime legislative responsibility, ending the absurd repetition of commissions and debates in both houses. The chamber would be cut to 400 deputies from 630 and the senate to 200 from 315.

Efforts to convert the senate into a body representing the regions were rejected; but a new regional commission will be set up, composed a third each of senators, heads of regional governments and representatives of local bodies.

The move to a more federal state proved the least controversial in spite of the important long-term potential of the shift away from centralised power. The state would retain 31 exclusive functions, including defence, law and order and economic policy. The regions would acquire considerable financial autonomy but there would be a 'solidarity' fund to offset the imbalance between rich and poor regions.



Iri meets Brussels deadline on debt - just

Italy's state holding company, Iri, is hoping a last-minute Treasury payment has averted a showdown with the European Commission over reducing its debt, writes Robert Graham in Rome. Brussels had set a date of June 30 for Iri to lower its debt to the L5,000bn ($2.9bn) agreed with Mr Karel Van Miert, the competition commissioner. Just on the deadline, the valuation came through of Iri's 62 per cent stake in Stet, the telecoms group acquired by the Treasury last December.

The Treasury had agreed to pay Iri the bourse price of Stet ordinary and savings shares on December 20, 1996, with a commitment to top this up with a full valuation placed on acquiring majority control. It handed over in tranches the equivalent of L14,530bn, and on Monday a final valuation of L18,405bn was agreed, allowing for an extra transfer of L3,875bn.

The Treasury had stepped in to buy Iri's stake because of delays in privatising the telecoms group and the need to respect the deal with Brussels. Iri's debts were meant to have been brought into line by August 1996, but after intense Italian lobbying, this was postponed until December 1996 and then until this June. Thanks to the Treasury purchase 10 days before the 1996 accounts closed, Iri's debt fell to just over L9,000bn. Since then there have been no significant assets sales to reduce debt further and without the new transfer they would have been nearly double the required level at the end of June.

Peace broker Holbrooke: waiting in the wings

EU hopes talks will defuse Cyprus timebomb

By Lionel Barber in Brussels

President Glafcos Clerides and Mr Rauf Denktash are to hold talks near New York next week, the first direct contact between the leaders of the Greek Cypriot and Turkish Cypriot communities in three years.

The meeting is the latest United Nations-backed initiative to break the 23-year-long deadlock on Cyprus and paves the way for the US to play a bigger diplomatic role. But the repercussions go beyond the future of the divided Mediterranean island.

Cyprus is emerging as the ticking timebomb underneath the European Union's plans to expand membership to the former communist countries of central and eastern Europe.

The detonator was set in early 1995, when the EU promised to open accession negotiations with Cyprus six months after the end of the intergovernmental conference (IGC) to review the Maastricht treaty.

The IGC ended last month in Amsterdam with a new treaty, but no evidence of a thaw in relations between Greece and Turkey, or their respective clients in Cyprus.

Yet the EU is reluctant to let Cyprus join the club in the absence of a political settlement. Such a move would mean importing a political crisis and offending Turkey, which is pursuing its own claim to membership.

Meanwhile, Greece has threatened to block eastern enlargement if the EU fails to redeem its promise of membership for Cyprus. For its part, the Greek Cypriot government has indicated it has little margin for manoeuvre until after presidential elections next February.

"Cyprus looks like being one of the big crises in 1998," said one senior EU diplomat.

Next week's UN-sponsored talks are scheduled to take place between July 9 and 13 in Troutbeck, a rural retreat outside New York.

The idea is to break the ice between Mr Clerides and Mr Denktash before Mr Richard Holbrooke, the US negotiator and architect of the Dayton peace accords on Bosnia, moves to centre-stage in the autumn.

Time is pressing. The Greek Cypriot government is due to open accession talks with the EU in April 1998, a date which could coincide with the expected delivery of Russian-made S-300 air defence missiles. Turkey has threatened to use force if the missiles are deployed.

Intransigence in Athens and Ankara has sabotaged numerous EU and UN initiatives, the latest being a much-touted group of "wise men" formed to defuse Greek and Turkish rivalry over territorial claims in the Aegean.

But the EU is struggling to define a strategy for dealing with Turkey, which is pressing to be put on an equal footing with the 10 central and eastern European applicants for EU membership.

Jospin tries to calm Renault row

By Andrew Jack in Paris

Mr Lionel Jospin, France's prime minister, attempted yesterday to calm the first significant dispute within his leftwing government coalition. The row was triggered by the decision to proceed with the closure of the Renault car factory at Vilvorde in Belgium.

Speaking to the Socialist group in the National Assembly, he appealed for political unity and argued that the government had met its promises during the election campaign by promising to re-examine the closure.

"One can be upset by the situation, and I understand the emotion it has invoked," he said. "The decision was taken by the previous government and cannot be laid on the current team."

His comments came after Ms Danielle Kaisergruber, a consultant appointed by Renault to re-examine the closure plan, concluded on Saturday that the decision to close the factory should stand. She said that alternative proposals, including a switch to part-time working, would not provide a viable solution at Vilvorde, which employs 3,100 people.

Mr Jean-Luc Dehaene, the Belgian prime minister, rebuked Mr Jospin for raising false hopes among the employees for a possible reprieve. There was equally strong criticism from members of the French Socialist party, as well as Communists who hold the balance of power in the parliament.

Mr Louis Schweitzer, Renault's chairman, stressed yesterday that the company's board had made a "collective decision" about the closure which, he said, had been based on the interests of the company.

He also promised an "ambitious" redeployment plan of Vilvorde's employees to ensure that there would be no redundancies, suggesting considerable efforts to transfer and retrain staff or help them find jobs with other employers.

He appealed to the Socialist deputies to support the government, and to fight against the parties on the right in the National Assembly.

Meanwhile, Mr Daniel Vaillant, minister in charge of relations with the parliament, reiterated the importance of the Socialists' pledge to create 700,000 jobs – half in the private sector – by announcing legislation on the subject as the top priority of the next National Assembly session in September.

He unveiled a total of 17 new pieces of legislation which the Socialists want to introduce before the end of the year.

President rules out return to alliance command until Europe's role is widened

Chirac to keep up pressure over Nato

By David Buchan in Paris

President Jacques Chirac will continue to press the US for a bigger European role inside Nato as a precondition for France rejoining the alliance's integrated military command, his officials said yesterday.

In common with France's new Socialist-led government he believes too little progress had been made on this question for the country to make a full return to the command it quit 31 years ago.

Mr Chirac had hoped to announce this in time for next week's Nato summit in Madrid.

The main difference now on Nato between Mr Chirac and Mr Lionel Jospin's government is that the latter does not feel it worth continuing to press Washington to give Europeans more command responsibility. However, the president intends to pursue his Europeanisation initiative. As one presidential aide commented: "The situation in Nato is not static, we continue to hope it will evolve positively." It is unclear, though, how far Mr Chirac can go without backing from his government.

The presidential administration is putting a largely positive gloss on what has been achieved since December 1995 when Mr Chirac announced his intention to try to reintegrate France into a "reformed", or Europeanised, alliance. Since then, Nato has endorsed the concept of building a "European defence identity", and has given the European deputy to its supreme military commander the power to conduct purely European operations, if need be.

However, Washington's refusal to hand over the southern command in Naples to a European has led to bitterness in Paris, reinforced by the recent US announcement that it wants Nato enlargement confined to Poland, the Czech Republic and Hungary. France has been pushing for Romania to be included, but recognises that US views are likely to prevail.

France is stressing that it never linked the issue of internal change in the alliance to that of enlargement which will proceed as planned at Madrid. Two years ago, it started sending its defence minister and chief of defence staff to Nato meetings, and will keep doing so. It will also maintain its liaison with the new Combined Joint Task Force, created to mount special operations. The country will soon be in the odd position, though, of staying half-out of an organisation in which former Warsaw Pact military commands will be fully integrated.

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Bulgarians test new currency system

By Kerin Hope and Theodor Troev in Sofia

Bulgarians queued at the central bank yesterday to exchange levs for D-Marks, available in unlimited quantities for the first time with the launch of a currency board monetary system.

Bankers said the queues were a test of the government's commitment to pegging the exchange rate at 1,000 lev to the D-Mark under a deal worked out with the International Monetary Fund. Confidence in the banking system is weak following the collapse last year of large number of banks, with the loss of some 30 per cent of deposits.

The central bank bought D-Marks ahead of the currency board launch; some of them will be converted into German securities. It has built up the equivalent of $1.3bn in foreign exchange reserves, almost double the minimum required to match this year's projected money supply under the new monetary system.

Bulgaria's experiment with a currency board, following the examples of Estonia and Lithuania, is part of measures by the pro-market government to reduce inflation and impose fiscal discipline. Under the board regime, the central bank cannot print money to finance the budget or rescue troubled banks. It must also publish regular figures on reserves and money supply.

Mr Ivan Kostov, prime minister, said the system was not a short-term move to restore exchange rate stability, but a means of speeding Bulgaria's economic transition with the eventual aim of joining the European Union.

"From the board we will move into the European Monetary System. We expect that at some point between 2002 and 2006, we'll achieve the economic targets for membership," he said.

Confidence in Bulgaria's financial markets has returned recently. Following a drop in the monthly inflation rate from 242.7 per cent in February to 5.6 per cent in May, interest rates have declined from above 200 per cent to under 10.

Foreign exchange reserves were bolstered with privatisation revenues, loan transfers from international agencies and high inflows of short-term capital attracted by high treasury bill yields.

Few problems are expected over the summer, when income from tourism boosts foreign exchange reserves. But the currency board system may come under pressure later in the year when Bulgaria must service its foreign debt, import fuel for the winter and wheat after a disappointing harvest.

A Bulgarian banker said: "The government has to push ahead with bank reform in order to persuade people to take their foreign currency out of the mattress and put it back in the banks."

EUROPEAN NEWS DIGEST

Telekom told to raise offer

Deutsche Telekom was ordered by the federal post and telecommunications ministry in Bonn yesterday to improve the terms it has offered to would-be competitors seeking access to its networks.

The move is the latest stage in a battle over "interconnection" arrangements. It follows complaints by would-be rivals including o.tel.o – a joint venture between industrial groups Veba and RWE – and Arcor, backed by Deutsche Bahn, the German railway system, and a consortium led by Mannesmann, the industrial group. The ministry had previously reprimanded Deutsche Telekom for abusing its dominant market position.

Interconnection deals are vital if competition is to be encouraged after the market is fully liberalised in January. If Telekom does not come up with an acceptable offer by July 14 it could face a fine. *Ralph Atkins, Bonn*

Russian banks at risk

As many as 300 Russian banks will go bankrupt or be merged with healthier institutions this year, a senior central bank official warned yesterday. Mr Denis Kiselyov, head of the supervisory division, said the shake-out was a consequence of financial stabilisation which has fatally weakened hundreds of commercial banks. However, in contrast with many post-Communist states where nationwide banking crises have often been sparked by the end of triple-digit inflation, he said that Russia's banking system would not suffer a systemic collapse.

"We are experiencing a rather painful process, but it will not lead to a systemic shock. It is more like growing pains," Mr Kiselyov said. By the end of the year the wave of closures would be completed, he said.

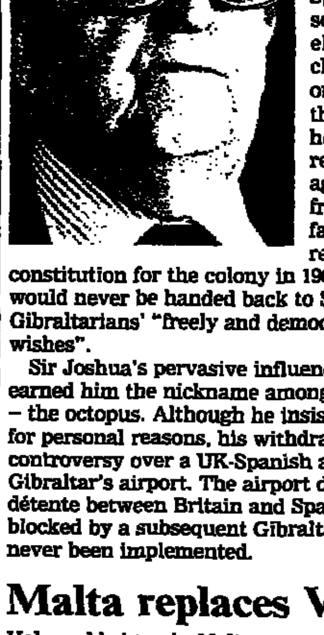
As late as last year, high inflation and political uncertainty led interest rates on government bonds to exceed 200 per cent per year, producing fat profits for hundreds of banks. This year the government has pushed treasury bill rates to below 20 per cent. The Kremlin's hope is that banks will be forced to invest in Russian businesses. However, Mr Kiselyov said that, so far at least, they had been slow to transfer their funds to the real economy. *Chrystia Freeland, Moscow*

Radiation checks ordered

Russia's nuclear power minister has ordered a safety check at all the nation's nuclear facilities following a researcher's death from radiation exposure. Alexander Zakharov died three days after being exposed accidentally to more than 1,000 roentgens during experiments involving nuclear chain reactions. Annual exposure to five roentgens or less is considered safe.

The accident occurred on June 17 at Arzamas-16, a research centre near Nizhny Novgorod in central Russia. A combination of human error and faulty experiment procedures has been blamed. Mr Viktor Mikhailov, nuclear power minister, ordered a "comprehensive check" of all nuclear facilities after reading the investigators' report. *AP, Moscow*

Gibraltar patriarch dies



Sir Joshua Hassan (left), the dominant figure of Gibraltar politics since the second world war, died yesterday at the age of 81. A patriarchal figure and champion of the British colony's cause against Spanish claims to sovereignty, he was its first elected mayor and its first chief minister from 1964 onwards. Except for a three-year interruption, he held this post until his resignation almost 10 years ago. A UK-trained barrister from a Jewish Gibraltar family, he was largely responsible for securing a constitution for the colony in 1969. This guaranteed that it would never be handed back to Spain against the Gibraltarians' "freely and democratically expressed wishes".

Sir Joshua's pervasive influence in Gibraltar affairs earned him the nickname among his enemies of El Pulpo – the octopus. Although he insisted that he had resigned for personal reasons, his withdrawal was widely linked to controversy over a UK-Spanish agreement on joint use of Gibraltar's airport. The airport deal, the high point of détente between Britain and Spain over the colony, was blocked by a subsequent Gibraltar government and has never been implemented. *David White, Madrid*

Malta replaces VAT

Value added tax in Malta was replaced yesterday by a 15 per cent duty on shipments arriving from the EU and 23 per cent on goods arriving from outside the EU. Wholesalers and service companies will be charged an additional 5 per cent excise duty on their turnover. The move frees 43,000 retailers from gathering VAT for the government.

The Labour party pledge to replace VAT is widely held responsible for its election victory last October, ending a decade of Nationalist party rule and bringing Mr Alfred Sant to power. But the introduction of the new taxes comes amid conflicting claims on how they will work and the effect they will have on the island's stalled economy.

The Nationalist party, together with the Chamber of Commerce and the Federation of Industry, forecast the new system will spur cost of living rises and increase unemployment. *Godfrey Grima, Valletta*

Berisha officials flee Albania

President Sali Berisha's top henchmen are fleeing Albania for fear of revenge after the ruling Democratic party's overwhelming defeat by the former Communists in last weekend's general election. Among those leaving Albania yesterday were Mr Belul Celo, the interior minister in charge of the state of emergency declared last March, and Mr Gjergj Lezha, a senior officer in the Shik secret police. General Agim Shehu, chief of police in Tirana, and Mr Xhait Xhaferi, head of Mr Berisha's presidential guard, fled earlier this week. The independent newspaper Koha Jone described Mr Shehu as "the president's truncheon" for ordering brutal attacks on the opposition.

Mr Fatos Nano, the Socialist leader and Albania's likely next president, told reporters he expected the government to take steps to bar former officials from leaving the country until investigations into the collapse of fraudulent pyramid schemes and their violent aftermath were cleared up. *Guy Dinmore, Tirana*

Threat of environment fines

The European Commission said yesterday it would impose more fines to enforce member states to comply with EU environmental legislation. It asked the European Court to rule on 23 infringements by eight countries involving directives on engine emissions, noise limits, animal protection and genetically modified organisms. They are part of a wave of infringement cases launched last week.

A spokesman said yesterday that the threat of fines this year had already resulted in action by Germany and Italy. *Sander Thoenes, Brussels*

هكذا من الاصل

President of Republika Srpska says Karadzic ordered his police to arrest her as part of an attempted coup

Serb power struggle threatens Dayton peace deal

By Anthony Robinson

The fragility of the 1995 Dayton peace agreement for Bosnia, maintained by a 31,000-strong international force (SFOR), has been underlined by a power struggle in Republika Srpska, the Serb part of the federal state created at Dayton.

The struggle is between Mrs Biljana Plavsic, the president of the Bosnian Serb republic, and Mr Radovan Karadzic, her predecessor. As an indicted war criminal, Mr Karadzic was forced to step down from the presidency months after the Dayton accords were signed. However, despite attempts to extradite him to appear before the UN war crimes tribunal at The Hague, he retains enough power over the police and other institutions to mount what Mrs Plavsic describes as an attempted coup against her.

On returning to Belgrade from an official visit to London, Mrs Plavsic was temporarily detained by the Serbian police, controlled by Mr Slobodan Milosevic, the Serbian president, on her arrival in Belgrade. After being driven into Bosnian Serb territory, she was then detained by Republika Srpska police on arrival at the town of Bijeljina. She finally returned to her headquarters in Banja Luka under the protection of an SFOR military escort.

The "attempted coup" followed her failed attempt to remove the interior minister, Mr Dragan Kijac, a close ally of Mr Karadzic, last weekend. Mrs Plavsic accused him of running smuggling and other rackets, and of opposing efforts to create a viable currency and customs administration which would curb the criminal activities of Mr Karadzic and other powerful former warlords.

Last week the Bosnian Moslem-Croat and Serbian entities agreed on a package of economic measures, setting up a central bank, a new currency and a new customs administration. This paved the way for $1.4bn of reconstruction loans this year and for this week's debt restructuring agreement.

The latest confirmation of the continuing power of indicted warlords in Republika Srpska demonstrates that, despite World Bank and EU-sponsored progress in the economic and financial sphere, the political situation remains very fragile. It also shows that the Bosnian Serb police, who under the Dayton accords are expected to protect refugees returning to the homes, remain a law unto themselves.

In theory, the US government remains committed to withdrawing its 8,000 troops in SFOR by July 1998. European governments have threatened to follow the US example on the "in together, out together principle".

In practice most attempts by refugees to return to their former homes across the ethnic lines patrolled by SFOR troops have been violently repulsed, and Nato's latest review of SFOR operations pledged that "no significant changes to the size and capabilities of SFOR will take place until the North Atlantic Council, in consultation with the non-Nato SFOR contributors, has undertaken a thorough assessment of the security situation after the municipal elections in Bosnia in September."

BOSNIA REACHES AGREEMENT ON YUGOSLAV DEBT

Bosnia-Hercegovina has reached a last-minute agreement in principle with its London Club commercial bank creditors which could set a precedent for a deal with rump Yugoslavia, consisting of Serbia and Montenegro, writes Anthony Robinson. A Yugoslav team led by Mr Danko Djunic, the federal deputy prime minister, is expected to meet creditors again later this month after inconclusive talks with the International Co-ordinating Committee led by Chase Manhattan Bank in London last week.

The agreement with Bosnia, reached on Monday night, is more generous than that extended to Croatia, Macedonia and Slovenia, which enjoyed limited interest rate relief but no reduction of principal. This reflects creditors' recognition of the severe damage caused by 43 months of war and ethnic violence.

Bosnia-Hercegovina agreed to accept responsibility for debt totalling $404m, but only $150m will be repayable in the first instance. The overall $404m is equivalent to 10.58 per cent of the $4.2bn which former Yugoslavia owed to foreign commercial banks under the terms of the 1988 New Financing Agreement (NFA).

The deal is in two parts. In the first instance Bosnia will issue the equivalent of $150m of D-Mark denominated bonds, a "basic amount" equal to 37.5 per cent of its NFA debt share. Principal on the basic amount will be repaid over 20 years with a seven-year grace period, while interest will be charged at a fixed rate of only 2 per cent for the first four years, rising to 3.5 per cent by the end of the seventh year. For the last 13 years, interest will be payable at less than one per cent over Libor.

Bosnia will only repay the remaining $254m of debt, called the "performance amount", when per capita incomes have risen above $2,800, or at least 10 years after issuance of the basic bonds. Once incomes rise to this level, Bosnia would issue a second tranche of bonds worth $254m, equivalent to 62.5 per cent of the NFA principal. These "performance" bonds would be amortised over 12 years.

The agreement in principle was signed by both Mr Haris Siladzic, prime minister of the Moslem-Croat federation and Mr Boro Bosic, his Serb counterpart.

Mrs Biljana Plavsic (left) accuses her predecessor, Radovan Karadzic (right), of mounting a coup

Leftwing rifts threaten Spanish unity project

By David White in Madrid

Rifts in Spain's Communist-led United Left, the third largest force in parliament, threaten to undermine the Socialist party's plans for a broad leftwing alliance on the French or Italian models.

Mr Joaquín Almunia, the Socialists' new secretary-general, has proposed forming a joint platform for the "common cause of the left" to contest elections for municipal councils and regional and national parliaments. This would build on alliances already emerging in some regions.

The proposal faces an obstacle, however, in the dogmatic figure of Mr Julio Anguita, the Communist party leader, who also heads the United Left, or IU, in a coalition with smaller leftwing and ecologist parties. Recent actions have made it clear he will veto any negotiations with the Socialists unless they pass through him.

Members of a dissident faction, New Left, which is closer to Socialist positions on key questions such as the European Union, were expelled from IU's federal council last weekend.

The purge of the moderate group, which includes three of the 21 IU parliamentary deputies, came after they broke ranks earlier this month by refusing party orders to vote against labour reform legislation. The legislation backed up an agreement which had been signed by both main trade union federations.

Mr Anguita and his mainstream Communist allies have also distanced themselves from the coalition's Catalan counterpart, Initiative for Catalonia (IC). New draft IU statutes omit a previous reference to its "stable framework of relations" with the Catalan grouping. This could lead to a rival electoral campaign for Communist votes in the region.

IC's leader, Mr Rafael Ribó, has called openly for an electoral pact with the Socialists in regional elections in Catalonia, where the parties are already allied in Barcelona city council.

It has clashed with the IU leadership on several occasions recently. Last month it refused to join a controversial decision by IU to help the conservative government push through a law on the broadcasting of sports events, against opposition from the Socialists and other Catalan deputies.

Mr Anguita, intent on reasserting his authority over IU ahead of a party congress in December, has also refused to support its regional branch in Galicia, which has formed a pact with the Socialists in an effort to oust the conservative regional government when elections are held in October

This announcement appears as a matter of record only.

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WORLD LEADER - WORLD VISION

After the Hong Kong handover, FT writers consider what the policy imperatives are in the region

China now turns eyes on Taiwan

By Tony Walker in Beijing and John Ridding in Hong Kong

China's leaders yesterday signalled to Taiwan that efforts to secure reunification would be increased following Hong Kong's return to mainland control under the "one country, two systems" formula.

President Jiang Zemin and the premier, Mr Li Peng, made it clear in speeches delivered on their return to Beijing from handover celebrations in Hong Kong that greater priority would be accorded to the Taiwan issue.

"We hope that the Taiwan authorities will... truly return to the one China position and take concrete steps towards the development of cross-Straits relations and to the complete reunification of the country," Mr Jiang told a mass rally in Beijing.

Mr Li said at a reception in the Great Hall that the "one country, two systems" model "works for Hong Kong and Macao [and] it can also work for Taiwan".

Informal negotiations between Beijing and Taipei ground to a halt in 1995 following a visit to the US by Taiwan's President Lee Teng-hui which deeply angered the Chinese. Efforts to re-start the talks have been unsuccessful, but it seems likely Beijing will now step up pressure on Taiwan to re-engage, possibly at a higher level than before.

China regards Taiwan as a renegade province and has not ruled out the use of force to secure its return. Taiwanese officials say the time is not ripe for reunification talks.

President Jiang in several speeches yesterday sought to reassure Hong Kong about its autonomy under Chinese sovereignty and also extended an olive branch to Britain. "We have full confidence in the Hong Kong government and will give it full support," he said in Hong Kong before returning to Beijing.

"No central department or locality may or will be allowed to interfere in Hong Kong's affairs which, under the Basic Law, should be administered by the Hong Kong Special Administrative Region, he added, referring to the territory's post-colonial constitution.

Speaking at a ceremony to mark the establishment of the Hong Kong SAR, as post-colonial Hong Kong will be known, Mr Jiang described the resumption of sovereignty as "a red letter day" and a "shining page in the annals of the Chinese nation".

● Mr Robin Cook, UK foreign secretary, said that he would visit Beijing by the end of the year and that Mr Tony Blair, the prime minister, would make a visit in 1998.

Mr Cook said he was leaving Hong Kong encouraged about the territory's prospects, citing reassurances about the timetable for elections, due to be held within one year, and the deployment of the People's Liberation Army.

"I welcome the fact that a senior Chinese minister has explicitly confirmed that the defence role of the PLA is solely external, not internal," said Mr Cook, referring to discussions with Mr Qian Qichen, his Chinese counterpart.

Education and housing are priorities

By Peter Montagnon and John Ridding

Education and housing emerged as the main priorities of Hong Kong's new administration in the first policy speech by Mr Tung Chee-hwa, the territory's chief executive, yesterday.

Mr Tung called for "a stable, equitable, free, democratic, compassionate society with a clear sense of direction" which could contribute to the modernisation of China, the nation to which Hong Kong now once again belonged.

He paid tribute to China's late paramount leader Deng Xiaoping, who created the concept of "one country, two systems" which underpins Hong Kong's handover. His administration would work to strengthen the understanding of mainland China with which its interests were entwined.

"The reunification has created a new environment and better conditions for us to understand our country and our people, and to love our country and our people. Only then can we firmly establish our roots and make one country, two systems a success.

"Our foremost task is to enhance Hong Kong's economic vitality and sustain economic growth," Mr Tung declared. "Only through the creation of wealth can we improve the living of the people of Hong Kong, and continue to contribute to our country."

Hong Kong's Basic Law provided the constitutional framework for the territory and guaranteed free enterprise, free trade, prudent financial management, low taxes, the rule of law, an executive-led government and an efficient civil service.

His main pledges included:

● A commitment to draw up a 10-year plan to increase overall housing supply by speeding reclamation and land formation and extending the mass transit rail system. His administration would reduce the average waiting time for public rental housing to three years and clear all temporary housing areas.

"Owning one's home is an aspiration shared by the people of Hong Kong. It is crucial for nurturing a sense of belonging and maintaining social stability;"

● Implementation of Hong Kong's plans to establish a mandatory provident fund as soon as possible with an in-depth review of the territory's social security scheme to assist the elderly;

● A commitment to promote a good business environment. "We will promote the services sector and facilitate the development of value-added and high-technology industries.

"It is the responsibility of the government to plan for and train the necessary manpower and uphold the principles of free trade, fair competition, and non-interference in the market;"

● Maintenance of the legal system and rule of law. "We will continue to ensure the executive, legislative and judicial branches of government operate independently. We will keep up our efforts against corruption and maintain a clean society;"

● An injection of sufficient resources into the education system to allow improvement at all levels with better qualified teachers, higher standards of language training and formulation of a comprehensive policy on the application of information technology in education. New primary and secondary school teachers should all have a university degree and teacher training.

"Education is the key to the future of Hong Kong. It provides a level playing field for all, and the human resources required for further economic development."

Tung Chee-hwa, Hong Kong's chief executive, being greeted by guests at a post-handover reception yesterday AP

Shanghai fighting to regain lost title

As the choir of 10,000 lined Shanghai's colonial waterfront in the early hours of yesterday morning to welcome the return of Hong Kong in a festival of song, a few members might have been tempted to hit a discordant note.

For besides the state-orchestrated euphoria and the genuine swell of patriotism, the Shanghainese have mixed feelings about Hong Kong.

"Every Chinese citizen feels pride at Hong Kong's return to the Motherland," said Mrs Chen, who works in a local laundry. "But, you know, Shanghai used to be the richest, most bustling city in China... much bigger than Hong Kong. Today we are poorer than we were many years ago, but if we had had independence – like Hong Kong – then Shanghai would be the business capital of Asia today."

In the 1920s and 1930s, Shanghai dwarfed Hong Kong as the pre-eminent financial and commercial centre in the region, but the Communist takeover in 1949 and a generation of Maoist rule wiped away the pre-war opulence and the title passed to Hong Kong.

Today, China's fastest growing city has ambitions to regain its lost mantle. But autonomy is the elusive key. China's still meddling state remains the single biggest obstacle to Shanghai eclipsing Hong Kong and returning to the premier league of world financial centres.

Shanghai's resurrection has been startling enough. China's economic reform process started in the late 1970s, but Beijing, wary of unleashing commercial forces in China's largest city, only approved Shanghai's liberalisation in 1992. Since then, the city has been growing at 14 per cent per year.

Shanghai has sprouted expressways, suspension bridges and high-rise retail and office blocks, as well as a mammoth new municipal library, a grand theatre and a vast new museum taking pride of place in People's Square. According to local reports, the rash of construction has brought one fifth of the world's high rise cranes to Shanghai.

The city accounts for just over 1 per cent of China's population, but 8 per cent of its gross domestic product and more than 20 per cent of total foreign investment. Standing at the mouth of the great Yangtze river, it is the obvious gateway to China's industrial heartland and market of 350m people.

> According to local reports, the rash of construction has brought one fifth of the world's high-rise cranes to Shanghai

Pudong, the former wasteland in the east of the city, is earmarked to become China's Wall Street. This month, the stock exchange building with the largest trading floor in Asia will open. By 2001, the city will boast the tallest building in the world, the $1bn Shanghai World Financial Centre.

However, building the hardware to house a financial powerhouse may prove the easy part of Shanghai's renaissance. Establishing a free and functioning market system in the shadow of Beijing's interventionist leadership may take longer.

Back in 1994, a confident Mr Mao Yingliang, president of the Shanghai branch of the People's Bank of China, the central bank, set out an aggressive development plan that saw Shanghai surpass Hong Kong's securities market within a couple of years and catch up with other international financial centres, including New York, London and Tokyo, by 2010.

The programme hinged upon the opening of a gold market and an offshore financial market, as well as the development of the financial futures industry and the transfer of state bank head offices to Shanghai. All such initiatives have been barred or stalled by the central government. The central bank's timetable has been discreetly ditched.

"Shanghai proposes and Beijing disposes, that is the nub of the problem," said one of the many foreign bankers frustrated by the spluttering development of Shanghai's financial markets. "Shanghai remains part of a state planned economy. If it were a special administrative region, like Hong Kong, then it would catch up very fast."

Hong Kong's administrative freedom makes it innovative, refining its financial and commercial expertise to stay in contention with other global business capitals. Shanghai, meanwhile, has yet to establish some of the market foundations: the rule of law, broadly transferable share ownership and full currency convertibility. Until China achieves current account convertibility, China's stock markets will offer little more than tiny, speculative opportunities to the foreign investor.

Not that Shanghai has abandoned its ambitions. Mayor Xu Kuangdi expects that by 2050, Shanghai will be the pre-eminent financial and commercial city in the Asia-Pacific. And Mrs Chen agrees: "We still need a long time. But we will catch up. We will be the richest city in Asia once again."

James Harding

Japanese women still do the dishes

By Gillian Tett in Tokyo

Japan has embraced many western fashions in recent decades – but the concept of the "new man" is apparently not one of them. A government report yesterday showed that Japanese men undertake just 20 minutes of housework each day on average – even when their wives work.

This aversion to domestic chores hampers attempts to promote equality, the government said. For though record numbers of women are now working in Japan, on average they do over four hours of chores a day.

Ms Natori Haniwa, director of the government Office for Gender Equality, said: "In comparison to Europe and America, Japanese men devote a remarkably shorter time to housework."

Traditional Japanese society has long assumed that women's role is in the household. This has left the Japanese government facing United Nations criticism in recent years because the country lags behind other western nations in terms of women's rights.

Last year the government tried to improve its image by establishing a "Plan for Gender Equality in the year 2000". Its first progress report yesterday heralded some improvement. Last year women accounted for a record level of almost 40 per cent of the work force.

The proportion of women completing four-year university courses exceeded those doing the two-year option for the first time last year.

But women only earned about 60 per cent of male salaries. And only 8 per cent of Japanese politicians are women, compared with 40 per cent in Sweden.

One statistic in the report gave little reason for comfort: police data shows teenagers account for a third of all prostitutes in Japan, with the number selling sex "to get money for fun" apparently surging last year.

India plans sweeping court reform

India yesterday announced sweeping measures to overhaul its legal system, which is wrestling with a backlog of more than 30m cases. Reuter reports from New Delhi.

The steps include permitting plea bargaining, setting time limits for court proceedings, promoting alternate methods for settling disputes and setting up independent prosecution agencies, said the law minister, Mr Ramakant Khalap.

"[We] considered the heavy backlog of cases and have resolved that the 50th year of our independence be observed as the docket clearance year," Mr Khalap said after a conference of federal and state ministers on legal reforms.

"We suggested a definite timeframe for every stage of a trial. The ultimate aim is to limit the duration of a trial, to possibly less than one year. Today any civil litigation takes any number of years – 10, 20, 30 years. Sometimes, generations get involved," he said.

Mr Khalap said the government would introduce a system of plea bargaining, similar to that in the US, where the accused can receive more lenient treatment from the court in exchange for a guilty plea.

The two-day conference also decided to regulate public interest litigation pleas, which legal experts say are clogging the already overburdened judicial system. Such appeals are often filed directly in the Supreme Court by social and environmental activists who say the government is not fulfilling its statutory duties.

The conference unanimously agreed to introduce a constitutional amendment to override a controversial 1993 Supreme Court decision which awarded great powers to the chief justice of the court in choosing judges.

If parliament passes the amendment, the president of India will regain the power to appoint judges in consultation with existing judges of the Supreme Court and lower courts. Parliament is due to meet on July 23 for a month-long session.

Mr Khalap said the conference decided to appoint several woman prosecutors and judges to deal with cases of crimes against women. Government statistics show more 10,000 rapes recorded each year, but women's groups say the figure is much higher and that most cases are not reported because of the shame associated with the crime in conservative Indian society.

● The Indian government yesterday promised a fight against corruption as Mr Gujral faced strong criticism for abruptly transferring the popular chief of the Central Bureau of Investigation to a new job.

Philippine welcome for gas boost

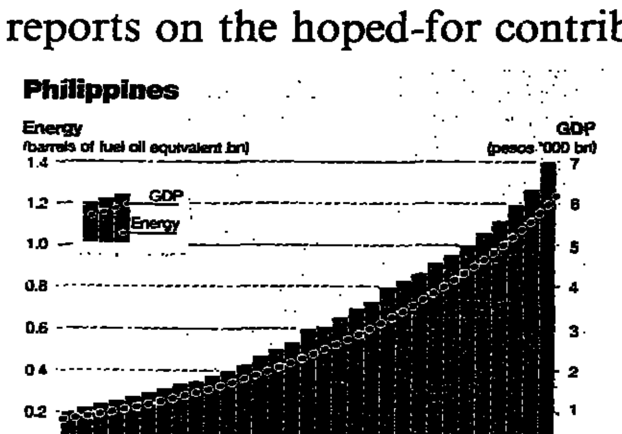
Justin Marozzi reports on the hoped-for contribution of a new energy source

Politicians and businessmen are given to talking up the importance of new contracts. Two deals signed last week during President Ramos's trip to the UK were described as "the largest and most significant investment in the history of Philippine business", but for once the billing looks close to the reality.

Together, the deals, which are the culmination of a costly energy exploration process going back nearly 20 years, represent the birth of the Philippine natural gas industry. When delivery of the first natural gas is made in about five years' time, the industry will make a big contribution to state revenues and help save precious foreign exchange.

Both deals involve the gas exploration joint venture Shell and Occidental (Shell Oxy). Under one, First Gas Holdings, a Philippine group partnered by British Gas, has agreed to buy 1,460bn cu ft of natural gas over 20 years from Shell Oxy's offshore Malampaya-Camago gas field in western Philippines to supply a 1,500MW power plant.

In a separate arrangement, Napocor, the state-owned power company, will purchase 1,100bn cu ft of Shell-Oxy gas over 20 years to supply its new 1,200MW gas turbine power plant in Batangas, outside Manila. The total reserves in Malampaya-Camago stand at 3,200bn cu ft, a small fraction of the country's natural gas resources of 39,500bn cu ft.



Source: Philippines Energy Plan 1996-2025

Together, the two deals, which are expected to be finalised in November, amount to a $4bn integrated natural gas-to-power project via a 500km offshore pipeline linking the Malampaya-Camago field to Batangas. The first delivery of commercial gas is scheduled to begin in 2002.

"We really believe we are on the threshold," says Mr Guillermo Balce, assistant secretary of energy. "The contracts are a clincher because without them, if there is no market, people will not start investing money. Everything is now set for the start of the financing, design, construction and eventual completion of the first generation plant."

Shell invested about $150m without significant results between 1978 and 1983. Occidental discovered the Malampaya-Camago field in the late 1980s but resources discovered were not considered commercially viable. Government planners are now eyeing a further 250km onshore extension of the pipeline to take gas up into central Luzon, the Philippines' largest island.

The natural gas programme is at the heart of the government's efforts to diversify its fuel mix away from the more expensive imported crude oil – which last year accounted for 51 per cent of the country's energy – to greater use of indigenous sources, including coal, geothermal, and hydro-electric.

At present, the Philippines is the only net importer of natural gas in the 10-member Association of South-east Asian Nations.

Gas represents 150,000 barrels of fuel oil equivalent, or just 0.06 per cent of the country's energy. According to the government's energy plan, by 2025 that will rise to 11 per cent, stimulated in part by demand from an estimated 400,000 commercial and residential customers between 2010 and 2020.

Of the 19,660MW capacity being added between now and 2025, one third will come from the gas development plan. Demand is also likely to be increased with the eventual conversion of Westinghouse's mothballed 660MW nuclear plant in Bataan into a 1,500MW gas-fired combined cycle plant.

The impact of the Malampaya-Camago project in the Philippines goes far beyond the embryonic natural gas industry, says Mr Oscar Reyes, chief executive of Shell Philippines.

"This is a landmark project with landmark benefits for the country. It addresses key challenges of the economy. First, it promises revenues for the government of about $400m-$500m annually, for the next 20 years. Its impact on the trade deficit will clearly be substantial and will also allow us to increase our self-sufficiency in energy by 20 to 30 per cent and free up about $1bn a year in foreign exchange."

Looking ahead, once the country is firmly on the world map for natural gas, further investment opportunities are likely to emerge. State-owned Manila Gas, which is in the process of being privatised, has an existing gas distribution network within the capital in need of rehabilitation and expansion to service a customer base which is expected to grow rapidly.

To encourage new exploration, the Department of Energy also plans to grant one 25-year service contract a year until 2025 with foreign equity participation up to 100 per cent.

Companies such as Arco and Murphy Oil of the US, Stirling of Australia and British Gas are already looking at other oil and gas exploration prospects around the archipelago, says Mr Balce.

The Fuga Island natural gas prospect in northern Philippines is potentially the country's largest with up to 18,000bn cu ft. The opportunities are endless, he says.

"We're excited about that one because even if it's 5 trillion [5,000bn] cu ft, it would be enough to justify a gas pipeline to Taiwan and eventually power interconnection between the two countries. And who knows, one day Taiwan may be connected to China. That would be a big market for both Taiwan and the Philippines."

ASIA-PACIFIC NEWS DIGEST

Thai deposit insurance pact

Plans to set up a deposit insurance institution within one year were approved by the Thai cabinet yesterday. This one of a number of measures being taken to lift depositors' confidence during a shake-out in the country's finance industry. The scheme will require lenders to make insurance contributions – lifting some of the burden from the central bank.

The cabinet also passed finance ministry proposals to waive capital gains taxes for the many mergers now expected among the 91 finance houses. The authorities have recognised that dealing with bad debts that may account for a third of all finance house assets will be hard enough without tax complications.

A cap on bank deposit rates and finance firms' promissory notes and call rates at 12, 14 and 11 per cent respectively was also agreed. *William Barnes, Bangkok*

Hashimoto to visit China

Mr Ryutaro Hashimoto, Japan's prime minister, will visit China in September amid growing concern there about Japan's strengthened defence relationship with the US. Plans for the trip were confirmed on the sidelines of the Hong Kong handover ceremonies, Mr Yukihiko Ikeda, Japanese foreign minister said in an interview. Mr Li Peng, China's prime minister will visit Tokyo in November.

During a bilateral meeting Mr Ikeda's Chinese counterpart, Mr Qian Qichen, had also raised worries about Japan's plan to allow its troops to take a more active role in collective defence operations in the region.

China wanted a multilateral approach to regional security, but Japan believed its alliance with the US offered the best guarantee of peace in the region as long as both countries also had strong relations with China. *Peter Montagnon, Hong Kong*

Pakistan bans MPs' defection

Pakistan's parliament yesterday passed a law banning the defection of MPs that will strengthen the position of prime ministers and ruling parties.

The law, which aims "to provide against defection of elected members with a view to obtaining a clean and honourable political state of affairs", means that MPs could lose their seat if they violate party discipline, vote against the party policy or abstain from voting in a way that contravenes party policy.

Yesterday's law was the second attempt by Mr Nawaz Sharif, the prime minister, to consolidate his position. In April, his ruling PML (Pakistan Moslem League) stripped the president of powers to sack the prime minister and dissolve parliament. *Farhan Bokhari, Islamabad*

Australia trade surplus grows

Australia posted one of its highest ever trade surpluses in May, reflecting a strong export performance combined with a sluggish domestic economy. Government statistics showed the May surplus at A$873m, (US$651m) compared with A$182m for April.

Exports rose 6.3 per cent while imports fell by 5.4 per cent to their lowest level for seven months. The export figure was inflated by the sale of a frigate worth around A$500m, but even excluding that, the trade trend has been strong so far this financial year. The trade surplus in the 11 months to May totalled $2.01bn against a deficit of A$1.2bn last year. *Bruce Jacques, Sydney*

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Brussels to appeal over hormones

By Neil Buckley in Brussels

The European Commission is set to appeal against a ruling that its ban on imports of hormone-treated beef breach world trade rules. The commission said the ruling could have far-reaching implications for consumer protection.

A confidential report from the World Trade Organisation has backed US and Canadian complaints that the European Union ban was illegal and unjustified. The ban was imposed in 1989 because of fears that hormones widely used in North America to promote animal growth could cause cancer and other abnormalities in humans.

The ruling was met with dismay by European consumer and farming groups. But it was welcomed by US trade and agriculture officials, who have consistently challenged the ban and claim US beef imports to the EU could be worth $250m a year.

The Commission said it had to consult EU states before launching an appeal, but was confident of their backing.

An appeal could delay the conclusion of the case until late in the year. But it is unlikely to overturn the conclusions of a report said to contain a forthright and systematic rejection of the EU's case.

If its appeal fails, the EU would either have to lift its ban, or pay hundreds of millions of dollars in compensation to the US and Canada for lost trade.

Officials hinted yesterday the Commission was prepared to pay fines rather than expose EU consumers to a product it insists is dangerous.

Brussels is also under pressure from consumer groups, farmers and EU states such as France not to allow in hormone-treated beef.

"Under no circumstances should the EU lift the ban," said BEUC, the Europe-wide consumers' organisation. "Consumers don't want it, it brings them no benefits, and it could have disastrous consequences for consumer confidence in beef."

Farmers are similarly fearful that concern over hormones could destroy confidence in beef, just as it is starting to return after the "mad cow" crisis.

The US, however, has indicated it would not accept compensation, but would insist on the principle that the EU should open its market. It says growth-promoting hormones in animals are not dangerous for humans if used correctly.

The WTO backed that view, accusing the EU of failing to carry out a proper risk assessment before imposing its ban. It suggested the EU was applying double standards by banning beef hormones, but failing to control naturally-occurring hormones in food products, or to ban synthetic hormones used in pigs.

Brussels accused the trade organisation of ignoring its scientific evidence.

It also warned that the report apparently challenged the right of governments to determine acceptable "risk thresholds" for their consumers – a right supposedly protected by WTO rules.

The ruling could make it difficult for governments to ban potentially dangerous products without amassing scientific evidence first, it added.

"The precautionary principle is out," said one EU official. "This ruling suggests you can't ban something until you can show people are dying from it."

Editorial Comment, Page 13

Ottawa loses its World Trade Organisation appeal over 'US cultural invasion'

Canada scrambles to protect magazines

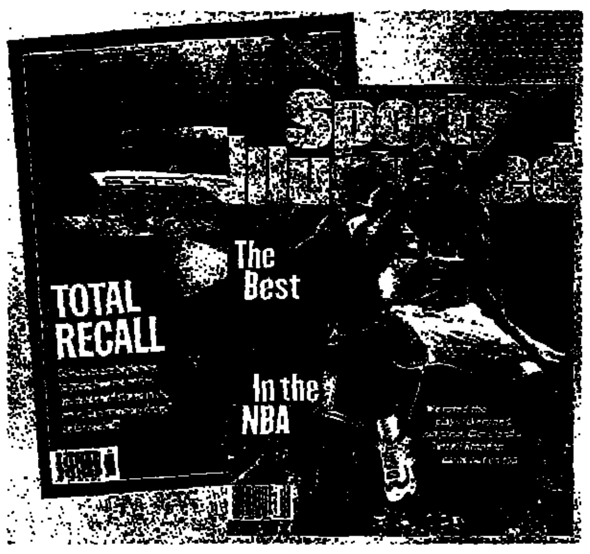
By Bernard Simon in Toronto

Canada is scrambling to find new ways of shielding domestic magazines from their powerful US rivals after exhausting its options under the World Trade Organisation's dispute settlement procedures.

A WTO appeal panel has rejected Ottawa's attempt to keep an 80 per cent excise tax on advertising in "split run" editions of US magazines, which have a high proportion of Canadian advertising but mostly US editorial content. The panel also backed a US complaint against postal subsidies for Canadian periodicals.

The magazines dispute has its origins in plans by the New York-based Sports Illustrated, which has a sizeable readership in Canada, to produce a "split run" edition in Canada. Local publishers complained that US magazines, with vast resources and economies of scale, posed a threat to their survival, and to Canadian culture in general.

Barshefsky: WTO rules stop governments using 'culture' as a pretence for discriminating against imports



Eggleton: new communications technologies challenge traditional protectionist devices

Canada has about a year to comply with the WTO ruling. Officials said the government would seek other ways of protecting publishers without infringing WTO rules. Magazine and newspaper publishers, also affected by the ban on postal subsidies, are due to meet international trade and heritage ministers this week.

Canada has erected measures over the years to protect "cultural" industries, such as publishing, broadcasting and film production. These measures are exempt from the provisions of the North American Free Trade Agreement, but the US has taken an increasingly unsympathetic approach.

Ms Charlene Barshefsky, US trade representative, said the latest finding "makes clear WTO rules prevent governments from using 'culture' as a pretence for discriminating against imports".

The US has complained about recent changes in Canadian copyright law under which a levy on blank tapes is paid into a fund to help Canadian artists. Ms Barshefsky says Nafta's "national treatment" provisions require US artists should share in the proceeds.

The initial WTO finding in the magazines dispute earlier this year triggered a debate on the efficacy of the government's cultural policies.

Critics say present policies help many large companies that can look after themselves, but do little to nurture artists and authors who define a nation's culture. Conversely, some US companies do more than some of their Canadian counterparts to support local culture.

Mr Art Eggleton, former Canadian trade minister, fuelled the controversy by saying dwindling sympathy among Canada's trade partners, especially the US, and new communications technologies challenged traditional protectionist devices.

Insurers sign up to global network

By Christopher Adams, Insurance Correspondent

The world's biggest insurance brokers have signed up their first paying customers for a global electronic network they say could cut transaction costs by up to 40 per cent.

Commercial Union and Royal & Sun Alliance, two UK-based insurers, will with the specialist Lloyd's insurer Brockbank Group begin subscribing to a system allowing them to conclude deals more rapidly with brokers. The commercial insurance industry has for years lagged behind other financial services in developing electronic commerce.

Unlike the securities and foreign exchange markets, commercial insurance markets are still largely paper-based, with transactions often taking weeks. Brokers frequently ferry thick bundles of paper into Lloyd's, the London insurance market, when looking to insure a risk, and must hold countless meetings with underwriters.

Four of the world's leading brokers have developed a system they say will allow much of this documentation to be transferred electronically between broker and insurer. The project involves co-operation between rivals facing increasing pressure to improve their core businesses. Many more commercial buyers are dealing direct with the insurer.

The four brokers, Marsh & McLennan, Aon, Sedgwick and Willis Corroon, yesterday defended the cost of the project, which has risen to £50m ($80m) in the three years it has taken to develop, with predictions of huge cost savings.

"Insurance brokers are losing market share," said Mr Dennis Mahoney, chairman of World Insurance Network, which developed the system with British Telecommunications. "If we are to prosper, we must look at more efficient business processes."

The network will use new software to allow brokers and insurers to communicate more easily. A directory of 300,000-500,000 contacts will allow brokers to select underwriters within seconds. Subscribers will be charged up to £100,000 depending on usage.

Japan telecom carriers warned on US licences

By Michiyo Nakamoto in Tokyo

Japan was warned yesterday by the Federal Communications Commission, the US telecoms regulator, that two of its leading carriers will not receive licences in the US market until Tokyo agrees to talks on equipment procurement by NTT and a dispute over foreign ownership rules in Japan.

Mr Reed Hundt, FCC chairman, said that without such signals from Japan, the commission did not intend to approve or disapprove the applications of NTT, Japan's dominant domestic carrier, and KDD, its largest international carrier.

Mr Hundt's stance runs counter to the view of the Japanese Ministry of Posts and Telecommunications that the issue of NTT's procurement of foreign telecoms equipment and a 20 per cent restriction on foreign ownership of NTT and KDD should be separated from the issue of US licence applications.

NTT, which has been allowed into the international market, and KDD both applied for licences earlier this year to operate limited telecoms services in the US.

The US Trade Representative's office wrote to the FCC asking that NTT and KDD's licences be suspended until progress was made on the two remaining issues. The US Trade Representative is keen to renew a bilateral agreement aimed at increasing foreign procurement by NTT which runs out in September and to win Japanese consent to dropping the 20 per cent foreign ownership rule that applies only to NTT and KDD.

Mr Hundt is in Japan to begin discussions on deregulation after February's agreement at the World Trade Organisation to liberalise global telecoms.

"The issue of real magnitude," Mr Hundt said, was whether Japan would move rapidly enough on lowering its interconnection and other charges and deregulating the market to build advanced communications. While the first phase of global deregulation saw greater acceptance of the idea of telecoms market competition and ended happily with the WTO agreement, the second phase was about "making philosophy reality".

Japan had a big role to play in that respect and needed to lower its interconnection charges, remove regulations on competition, particularly restrictions on licences, and introduce greater transparency to its regulations.

Japanese interconnection charges are the highest among developed countries, while licensing often involves pre-licensing negotiations involving unwritten rules.

● Singapore Telecommunications yesterday reduced its Integrated Services Digital Network international data rates by up to 23 per cent, making its rates cheaper than most of the countries with which it has ISDN links. SingTel at present has ISDN links with 35 countries, including Australia, Belgium, China, Hong Kong, Japan, Malaysia, the UK and the US.

WORLD TRADE NEWS DIGEST

Korean car exports surge

South Korea's main carmakers yesterday announced strong sales figures for June, thanks to a surge in exports, although domestic sales remained lacklustre because of the slowing economy. Hyundai Motor, South Korea's largest carmaker, said its sales in June rose 8.3 per cent to 118,764 units from 109,696 a year earlier. Hyundai said exports soared 42 per cent to 61,993 units from 43,609 units, due to the company's efforts to explore relatively new markets, such as Turkey, Greece, Spain and Italy.

Kia Motors also reported a surge in June sales, which rose 73 per cent to 67,746 units from 39,125 a year earlier. Kia said exports jumped 343 per cent to 40,093 units from 9,048 a year ago, when a wildcat strike hampered shipments. Domestic sales of Hyundai and Kia dropped as they lost ground to Daewoo Motor of the Daewoo Group. Daewoo's new model is popular in the local market. Daewoo said exports dropped 10.5 per cent to 54,063 units in the month from 60,379 units a year before because of a lack of cargo ships. However, Daewoo's domestic sales rose 15 per cent to 31,479 units from 27,875 units a year ago.

Reuter, Seoul

Malays to finance power plant

A consortium of Malaysian banks, led by Sime Bank and including Bank Burmiputra, will lend $105m to Independent Power Tanzania (IPTL) for construction of a 100MW oil-fired power plant at Tegata, Tanzania. The estimated cast of the project is $120m.

The plant will sell electricity to the state-owned Tanzanian Electric Company (Tanesco) for six to seven US cents per kilowatt hour plus a capacity charge of between eight to nine US cents per kwh. The power station is expected to earn M$200m (US$79m) a year.

Asif Huda, Kuala Lumpur

Court victory for Hughes

Hughes, the US aerospace company, has won a judgment against an Australian government authority over the awarding of a big air traffic control contract.

The Federal Court yesterday found that Australia's Civil Aviation Authority had failed to evaluate tenders properly when it awarded the multi-million-dollar contract in 1993 to Thomson Radar, a subsidiary of Thomson-CSF, the French aerospace company.

The judgment leaves the way open for Hughes to receive compensation from the Civil Aviation Authority's successor, Airservices Australia.

Bruce Jacques, Sydney

Danube bridge decision near

Bulgaria and Romania are to decide in a few weeks where to build a second bridge across the Danube, following five years of fruitless negotiations over three possible sites proposed in a study by Sir Alexander Gibb and Partners, the UK engineering consultants.

A Bulgarian transport ministry official said yesterday the new agreement set a timetable for choosing the site for a $140m toll bridge, which would carry road and rail traffic. The UK consultancy would carry out further studies of the site, selected with EU financing.

The original study recommended the new bridge should link Lom, north of Sofia, with Rastu. But Bulgaria wants a bridge linking Vidin, western Bulgaria, close to the border with Serbia, with Calafat, in Romania. Romania favours the third site further east, which would link Turnu Magurele, south of Bucharest, with Nikopol in Bulgaria.

Kerin Hope and Theodor Troev, Sofia

■ The rail transport group of Siemens, yesterday said it entered a DM260m contract to provide Belgium's state-owned train company Société Nationale des Chemins de Fer Belges with 90 hydraulic diesel locomotives. The engines will be built at the Siemens facility in Kiel, Germany.

AP-DJ, Frankfurt

EU offers to scrap financial services curbs

By Sander Thoenes in Brussels

The European Union yesterday offered to eliminate most of the remaining restrictions in the financial services sector, improving prospects for negotiations on a global agreement in financial services.

The EU offer comes before the July 14 deadline for revised offers from members of the World Trade Organisation ahead of a new round of talks on reaching a global liberalisation accord in December.

The US had previously rejected a deal because Washington said Latin American and Asian countries had not gone far enough in opening up their financial markets. The EU represents over one quarter of the world's insurance, banking and share trading markets.

The EU had offered "free access" to its financial service markets, without reciprocity, and now hopes to encourage others to make conditional offers, a spokesman said. "The most problematic [members] are Korea, Thailand, Malaysia, India, Mexico and Brazil," he added. "Our offer is more liberal than any other offer on the table."

The EU now proposes to end 12 restrictions still imposed by member states, mainly Sweden and Finland, to protect local banks, security firms and stockbrokers.

The restrictions include requirements to incorporate, establish a subsidiary and appoint local nationals as directors.

The EU would also relax requirements for non-EU insurance companies, mostly concerning establishment in member states and citizenship of its directors. France, Portugal and Greece would still screen large direct investments but few other restrictions remained, the EU spokesman added.

The US has yet to publish its revised offer. An earlier US proposal only guaranteed access to its market for foreign institutions' existing operations.

The EU wants this commitment to be extended to all foreign competitors and is urging a reform of a US-enforced separation of commercial and investment banking.

US misses deadline for judging Nafta's record

By Nancy Dunne in Washington

The Clinton administration yesterday failed to produce a long-awaited report on the North American Free Trade Agreement (Nafta) on schedule, saying it had been unable to complete the report on time.

Trade specialists in charge of the report have had plenty of material on the subject from outside government on which to base their assessment of the first three years of Nafta, in effect since January 1, 1994. The July 1 deadline for the report, written into US law, was preceded by a flurry of reports from Nafta proponents and foes.

The conservative Heritage Foundation said Nafta had helped create "millions of new jobs and a robust US economy". The "giant sucking sound" forecast by Nafta opponents "turned out to be Americans drinking up the juicy fruits of free trade".

The Brookings Institution concluded Nafta had probably created more jobs than it had destroyed, while spurring US-Mexican trade, business partnerships, specialisation in production processes and direct investment flows.

Six anti-Nafta groups, including the Economic Policy Institute and Public Citizen's Global Trade Watch, found Nafta had contributed to wage declines among blue-collar workers. "Many firms have used the threat of moving to Mexico as a weapon against wage increases and union organisation," it said.

Further, it found that "unregulated expansion of North American trade had made the heavily polluted border region much dirtier and more dangerous".

Anticipating "unqualified endorsement of the pact", the Council on Hemispheric Affairs said this would be "nothing more than an irresponsible political ploy to protect the reputation of what [the administration] sees as one of the premier foreign policy achievements of its years in office". Nafta had been paid for by loss of sovereignty in Canada and Mexico, which "to an alarming extent" had had policy decisions shifted to "foreign bureaucracies".

This week controversy surfaced over government aid for employers whose plant job losses have been certified by the US Labour Department as related to Nafta. A survey of employers showed several said the job losses had no connection to the trade pact. But the department certified redundant workers at these plants as, in effect, victims of Nafta and declared them eligible for a federally funded array of benefits.

Mr Raul Hinojosa, a professor of public policy at the University of California at Los Angeles, believes the certifications both overstate the number of jobs lost to the trade pact and fail to account for other, mostly non-union, jobs that were killed by Nafta but never reported.

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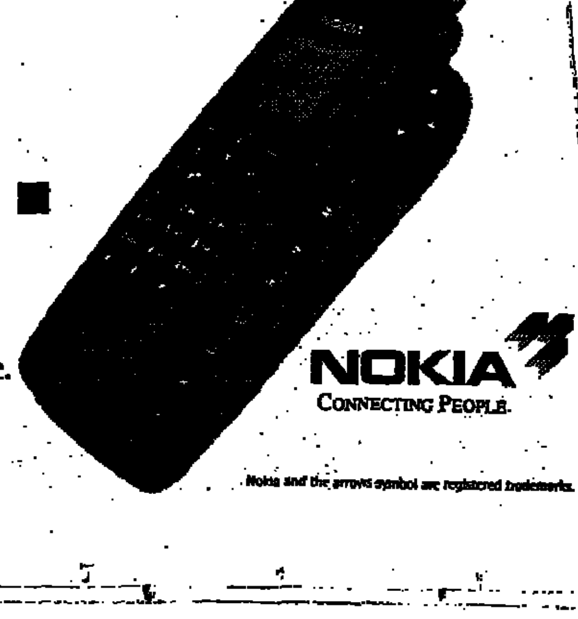

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Minister's visit to Tehran caps six months of Syrian-brokered fence-mending

Saudis seek rapprochement with Iran

By David Gardner and Robert Corzine

Iran and Saudi Arabia, the Gulf's two largest oil producers, took a step towards ending their recent history of tense relations yesterday with a visit to Tehran by a Saudi minister bearing messages from King Fahd and his heir, Crown Prince Abdullah.

The visit accelerates a discreet process of fence-mending which has been going on over the past six months, in which Syria, Iran's main Arab ally, has been acting as intermediary.

It also follows last week's meeting of the Organisation of Petroleum Exporting Countries, at which Saudi Arabia and Iran launched a joint effort to convince other Opec states to rein in over-production.

Prince Abdullah, who has long had close ties to Syria, last week attended a meeting in the Syrian port of Latakia of the Arab allies in the US-led coalition which evicted Iraq from Kuwait in 1991. The meeting, involving Egypt and Syria alongside the Saudi-dominated Gulf Co-operation Council, called in its final communique for a new start in Arab-Iranian relations.

Syria backed Iran during the 1980-88 Iran-Iraq war whereas Saudi Arabia, in common with its Gulf neighbours, helped finance and arm President Saddam Hussein's regime as a bulwark against the expansion of Iran's Islamic revolution.

Saudi Arabia, Kuwait and Bahrain have since frequently accused Iran of trying to export its Islamist fervour to the Shia Moslem minorities in their predominantly Sunni Moslem countries, and the Saudi authorities have had bloody clashes with Iranians on the annual pilgrimage to Mecca.

But three factors have now combined to make Saudi-Iranian rapprochement worth exploring.

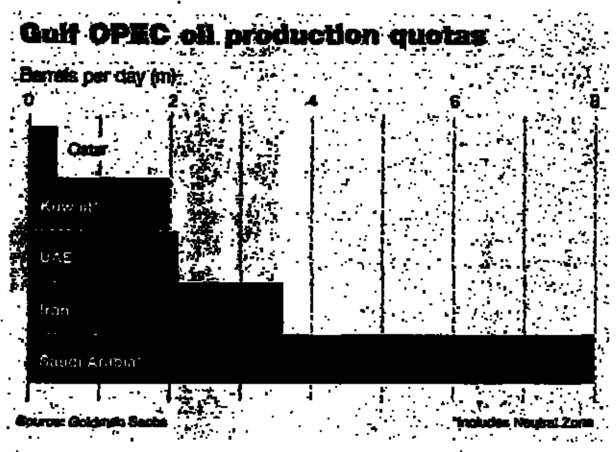
First, the Saudi ruling family, along with virtually all Arab governments, is concerned that Israel's refusal to hand back conquered Arab lands through the US-sponsored peace process is creating a popular backlash which particularly threatens countries such as Egypt and Saudi Arabia closely allied to Washington. Arab ranks are closing and Syria would like to strengthen them with Iran's support because, second, most Arab regimes are also very wary of the growing alliance between Israel and Turkey.

Third, some Arab governments believe the election in May of Mr Mohammed Khatami as Iran's new president could open a new chapter in Arab-Iranian relations. Mr Khatami is a liberal in the Iranian context, who has stressed the rule of law and the need for Iran to co-operate with its neighbours in the interest of regional stability.

Both countries also share a desire to see a continuation of the relatively high oil revenues they have enjoyed over the past 18 months or so. They also share a fear that over-production by some Opec countries could weaken oil markets over the next year, hence last week's joint effort at the Opec meeting in Vienna.

Such a public display of co-operation surprised some analysts, although others noted the two countries had previously pushed aside political differences to reach agreements on oil issues.

Gulf OPEC oil production quotas



Unravelling Egypt's business red tape

Mark Huband on the hidden depths of bureaucracy that help frustrate the economic reformers

Foreign investors wishing to take advantage of Egypt's rapid moves toward a modern, open economy have welcomed Cairo's efforts to weaken the power of the unreformed bureaucrats who so often lurk in the shadows of economic reformers.

Eager to double last year's $800m foreign direct investment, the Egyptian government has passed a company law intended to cut red tape. New companies now have a one-stop registration procedure with the Investment Authority, while tax incentives are intended to make Egypt the most attractive business destination in the region.

"Obviously I think it's a good place to invest," said Mr Mohamed Atiyeh, the Jordanian chairman of the Cairo-based Arab European Company, which manufactures irrigation equipment.

This is in part explained by the E£800,000 ($235,000) profit his company made last year. But that has been less on his mind than has a two-year dispute within the company, the conclusion of which has revealed the shortcomings of Egypt's business-related infrastructure.

Mr Atiyeh fell out with his Greek partner two years ago over a decision to buy equipment for the company's Cairo plant from another company owned by his partner. Mr Atiyeh objected to the cost, saying the equipment could be bought more cheaply elsewhere. Since 1995 his partner has attempted to prevent him raising an objection to the purchase at board meetings, and eventually tried to reconstitute the board of directors to silence him.

> 'What I have found is that the problem lies at the lower and the middle management'

The dispute reached its climax last month after an increasingly bitter legal battle. Mr Ibrahim Fawzi, the respected chairman of the Investment Authority, was able to offer no solution other than the sale of one partner's shares to the other. Mr Atiyeh agreed to pay $750,000 for 50 per cent of the company owned by the Greek partner, which he said was $150,000 more than he reckoned the shares to be worth.

"It seems that at the top level people are very keen and very serious about attracting investment and facilitating the climate for investment," Mr Atiyeh said. "What I have found is that the problem lies at the lower and middle management. These people are still more or less the problem."

According to Mr Atiyeh, the legal advice of the institutions which became involved in the dispute – the Investment Authority, the Registrar of Companies and the Capital Market Authority – was blurred by misunderstandings and favouritism.

"They created problems because they wrongly interpreted the law," said Mr Ahmed el-Sherbiny, legal adviser to the Arab European Company.

At the heart of the problem was a company rule which stated that no individual shareholder had more than 25 per cent of the votes at the company annual general meeting.

This stipulation, Mr el-Sherbiny said, is one the Egyptian government insisted upon routinely in the past. Though it is no longer demanded, it remains in the rules of individual companies. "There was complete confusion in the Investment Authority legal department," said Mr el-Sherbiny.

The Investment Authority says the confusion stemmed from the company's rules rather than the law.

"All the lawyers have tried to find loopholes in the company by-laws," said Mr Fawzi, the reform-minded chairman of the Investment Authority. The dispute led to Egypt's ambassador in Athens being summoned to the Greek foreign office amid threats that Egyptian-Greek business relations would be harmed. The Greek ambassador in Cairo met Mr Fawzi. But the question at the heart of the dispute was whether or not Egypt had the instruments to resolve such problems.

> 'I think the lesson is that people have to be careful when they adopt a set of unorthodox laws'

"I think the only lesson from this is that people have to be very very careful when they decide to adopt a set of unorthodox by-laws," Mr Fawzi said. "My interference in this case was not really out of an official position. The two sides were not of the understanding that they could achieve a result through arbitration."

The dispute has not clarified which authority was responsible. Now the government is seeking to attract, with little apparent success, anchor investors for some of up to 40 state-owned companies it is seeking to privatise by the end of this year. As the private sector takes on a greater role, the demands for safeguards will grow.

"It is one of the weak points of the bureaucracy, that the Investment Authority put themselves in the position of a judge," said Mr Atiyeh. "They shouldn't have put themselves in that position in the beginning. Meanwhile, there's a conflict between the Investment Authority, the Capital Market Authority and the Companies' Registrar. Each party put the blame on the other."

INTERNATIONAL NEWS DIGEST

Mugabe plans to tax farms

Zimbabwe's President Robert Mugabe said yesterday he would expand a controversial land acquisition law to include an agricultural tax and bar foreigners and companies from owning land.

In an address to a new session of the parliament of Zimbabwe, Mr Mugabe also said his 17-year-old government would in the coming year sub-divide large farms into small commercial holdings to enable easy entry of the country's black majority into commercial agriculture.

Mr Mugabe's government has acquired about 3m hectares, mostly from white commercial farmers, since 1992 under a Land Acquisition Act that allows it forcibly to buy farms to resettle landless black peasants.

Yesterday, Mr Mugabe said his government still intended to buy over 5m more hectares to fulfil its resettlement plans. *Reuter, Harare*

Jordan capital markets open

Jordan's capital markets will be thrown open to foreign investors after the government yesterday scrapped the 50 per cent ownership ceiling on most stocks. The measures follow the liberalisation of foreign currency unveiled at the weekend and signal the government's commitment to press ahead with economic reforms and deregulation, primarily aimed at attracting foreign investment.

Under the new reforms, foreigners will be able to buy stakes of up to 100 per cent in most sectors, including banking, insurance, telecommunications and transport. However, the construction, the retail trade and mining, particularly the lucrative potash mines on the Dead Sea, have been excluded. *Judy Dempsey, Jerusalem*

Israel budget deficit soars

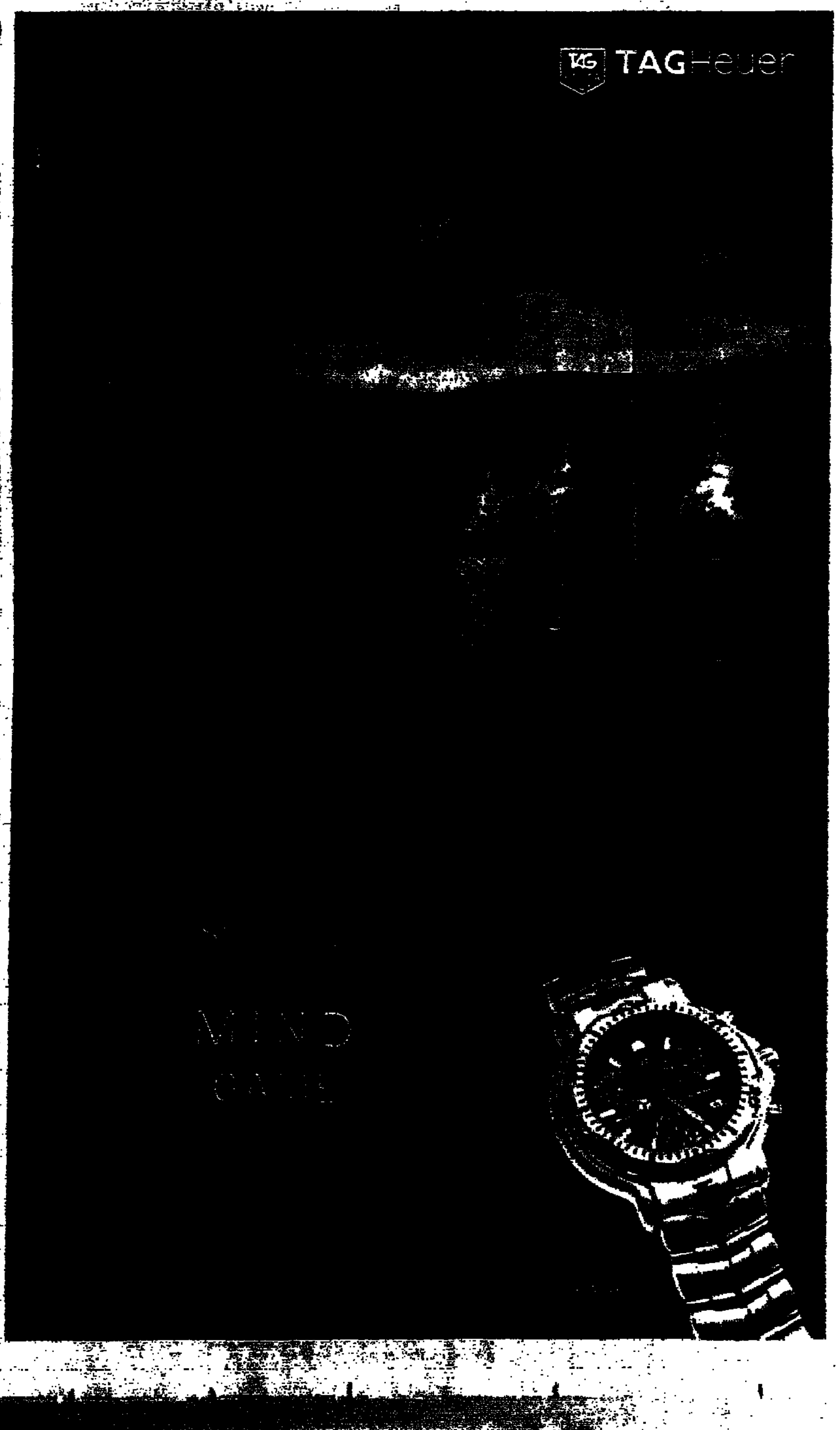
Israel's budget deficit soared to Shk3.13bn ($870m) in May, fuelling concerns about the government's ability to cut the deficit to 2.8 per cent of gross domestic product this year compared with 4.6 per cent in 1997. The deficit, higher than finance ministry forecasts, was caused by interest payments on government loans as well as a bonus paid to civil servants. The April deficit was Shk396m.

A report this week by Ilanot Batucha Investments doubted the government could meet its target and warned that a failure to tackle the deficit "may lower Israel's international economic standing". *Judy Dempsey*

Rand survives easier controls

The rand strengthened slightly against the dollar yesterday as South African banks reported only modest interest by local residents in taking advantage of the relaxation of foreign exchange controls. From yesterday South Africans were able to apply for up to R200,000 ($44,000) in foreign currency, to be held locally or invested overseas. The rand closed in Johannesburg at R4.53 against the dollar.

Mr Trevor Manuel, the finance minister, announced the concession in his March budget as part of the government's commitment to abolish remaining exchange controls. The Reserve Bank estimated that R3bn-R5bn could leave the country as a result of the relaxation. But officials said it might be three months before local demand could be assessed. *Roger Matthews, Johannesburg*



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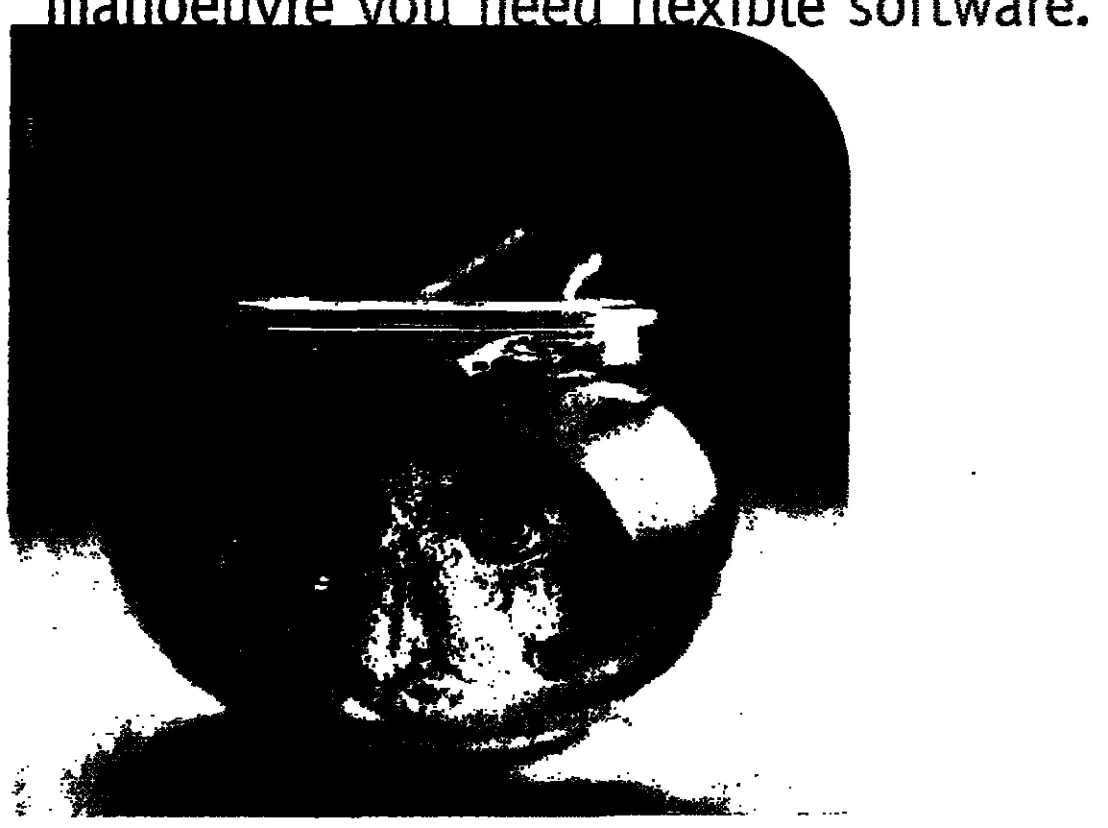

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Economy in US signals slowdown

By Gerard Baker in Washington

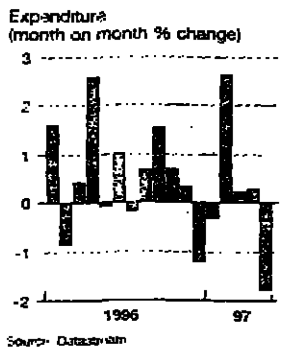
Fresh signs emerged yesterday that the US economy was set on a path of slower growth. Construction spending fell sharply in May, while the pace of manufacturing growth slowed in June, two reports showed.

Construction outlays dropped by 1.8 per cent from a month earlier, to a seasonally adjusted annual rate of $585bn, the steepest fall in three years, the Commerce Department reported. But the decline followed a sharp upward revision of the data for April, suggesting the trend of construction spending remains on a gently rising path.

The monthly figures from the Commerce Department have become subject to increasingly large subsequent revisions recently. The more reliable longer-term average shows construction spending increased by 1.5 per cent in the three months to May compared with the previous three months.

Both public and private sector construction fell last month, but the broader trend suggests public sector outlays have been flat since the end of last year, while private sector spending has been growing steadily on both residential and commercial projects.

US construction



In a separate report, the nation's purchasing mangers reported a sharp slowdown in the growth of manufacturing activity in June. The National Association of Purchasing Management said its monthly managers' survey showed a fall in the number reporting growth in new orders and backlogs last month.

The NAPM's main index fell to 55.7 in June from 57.1 a month earlier, but the figures suggest manufacturing activity is still growing strongly, albeit at a slower pace than in the previous month. A NAPM reading of more than 50 is consistent with an expanding manufacturing sector.

The survey also pointed up the continuing benign features of the expansion. Purchasing managers said employment growth accelerated again last month, while prices paid fell at a faster rate than in May.

"Purchasing executives' comments on business conditions remain optimistic," said Mr Norbert Ore, chair of the NAPM's business survey committee.

A further study yesterday suggested the economy can expect to maintain moderate growth over the rest of 1997. The Conference Board, a private sector business research group, said its index of leading indicators gathered strength in May, after faltering in April. The index, a fairly reliable predictor of economic conditions in six months' time, increased by 0.3 per cent to 103.8 in May.

Overall the reports indicate an economy expanding at a moderate rate in the second quarter of 1997. The pace of growth represents a significant slowdown from the first quarter's annual rate of 5.9 per cent, and is likely to be gentle enough to persuade the Federal Reserve not to raise interest rates at the current meeting of its policy-setting open market committee, which ends today.

Tens of thousands of people were on emergency alert yesterday after Popocatepetl (above), the giant volcano near Mexico City, belched red-hot rocks and clouds of ash in its biggest eruption in 72 years, Reuter reports. Ash and acrid gases showered down on much of Mexico City from the snow-capped 17,887 ft volcano, forcing temporary closure of the international airport. Troops were rushed to 30 villages at the foot of the volcano 33 miles southeast of the capital.

AMERICAN NEWS DIGEST

Impeachment vote in Brazil

The state legislature of Santa Catarina, the southern Brazilian state, has voted to begin a process of impeachment against the governor, Mr Paulo Afonso Vieira, over his alleged role in a long-running scandal about bond issues.

In a separate action, Mr Vieira won an injunction at the Supreme Federal Tribunal, Brazil's highest court, which will at the very least delay the impeachment process for a number of months.

Mr Vieira is the latest politician to be caught up in the scandal which has been the subject of a six-month congressional inquiry in Brasilia. Senators leading the investigation claim the states of Santa Catarina, Pernambuco and Alagoas, and the city of São Paulo, illegally issued over $1bn of bonds. Other state governors involved have so far avoided impeachment votes though Mr Celso Pitta, mayor of São Paulo, has had his assets frozen and faces a legal challenge to strip him of his office.

Under the injunction won by Mr Vieira, he cannot be removed from the governorship until the evidence has been examined by a special commission of the state assembly and Santa Catarina deputies have voted again to impeach him. The case would then have to pass to a special tribunal of five judges and five politicians for a final verdict.

The impeachment vote has exacerbated tensions in the government coalition in Brasilia as Mr Vieira's party, the PMDB, and two of the parties which voted against him in Santa Catarina, the PFL and the PSDB, are allies at the national level. In a tense atmosphere in the state assembly yesterday scuffles broke out between deputies after the vote. *Geoff Dyer, São Paulo*

$200m flood aid for Chile

Emergency aid of $200m to repair damages and provide new homes for the victims of flooding in the central and southern areas of Chile during the past three weeks has been announced by President Eduardo Frei.

The bulk of the aid, to be spent over the next 12 months, is to go on housing, road repairs, and to reinforce river and canal defences in preparation for what is expected to be an unusually rainy winter. This is the probable impact of the climatic phenomenon known as El Niño, a warm-water current which appears sporadically off the coast of South America.

Chilean exporters are pressing for more effective government aid to help keep clear the main passes over the Andes, blocked by snow for several days during the worst of the storms. *Imogen Mark, Santiago*

Saez tops Venezuela poll

Ms Irene Saez, the former Miss Universe from Venezuela and now mayor of the Caracas district of Chacao, is well ahead of the field for next year's presidential election, an opinion poll said yesterday. Ms Saez, who has not yet declared her candidacy for the December 1998 election, was the preferred candidate of 45.3 per cent of those questioned.

Political analysts say her popularity stems from high public recognition. She has served two successful terms as mayor of Chacao during which the crime rate has dropped and public services improved. Ms Saez's nearest rival, former Carabobo state governor Mr Henrique Salas Romer, trailed with 13.2 per cent. *Reuter, Caracas*

Agreement would be fund's first programme to incorporate issues of good government

Argentina working out IMF spending pact

By Stephen Fidler, Latin America Editor

Argentina is negotiating a ground-breaking economic programme with the International Monetary Fund aimed at improving the quality of government spending.

If the three-year programme, a so-called extended fund facility, is negotiated, it would be the first IMF plan to incorporate issues of good government.

The method by which targets can be established, if at all, on qualitative issues has yet to be settled. However, the programme should come into effect about the beginning of next year.

IMF programmes usually target measurable economic indicators such as inflation, budget deficits and the level of foreign exchange reserves.

Mr Pablo Guidotti, Argentine minister of treasury, said that over the period of the programme, Argentina aimed to reduce its debt to multilateral institutions such as the IMF and would only draw funds from the IMF facility if the government's access to the markets was closed. "The financial aspect is the least important," he said.

The aim would be to have the IMF help improve the quality of government spending and the budget process, and increase the efficiency of tax administration, he added. However, both the IMF and the World Bank are devoting increasing attention to questions of "governance", such as corruption.

Economists are also attaching increasing importance to the quality of government as an issue encouraging development.

The World Bank's World Development Report, published last week, said that in countries with good governance and sound policies, real income per head grew at 3 per cent a year in the two decades to 1993.

With reasonable policies, but poor government, growth per head was only 1.4 per cent. In countries with neither, it was a mere 0.4 per cent.

In a speech in May to Argentine bankers, Mr Michel Camdessus, IMF managing director, outlined three "key tasks" for the state: a transparent regulatory system, a professional and independent judicial system, and an improved quality of government spending.

The minister of justice was more important than a minister of economy in the task of development, he declared.

Mr Elias Jassan, Argentine justice minister, quit last week after admitting contacts with a controversial local businessman, Mr Alfredo Yabrán.

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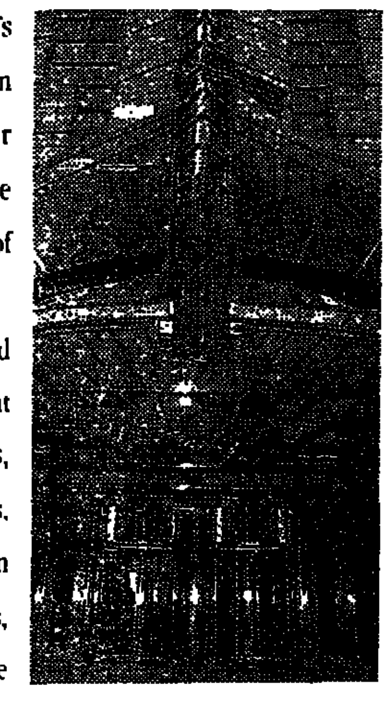

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Record boost for derivative trading

By Richard Waters in New York

Trading in derivatives and other instruments generated record earnings of $2.4bn for the US banking industry in the first three months of this year, according to an official estimate yesterday.

The Office of the Comptroller of the Currency, which regulates nationally chartered banks, said this was 28 per cent more than the banks earned in the previous three months.

It comes at a time when such instruments have retreated as a major cause of concern for US financial regulators. This first arose in 1993 at a time when derivatives were little understood, leading to a wave of official studies and an increase in the amount of information banks and others had to disclose about their derivatives activities.

The trading of such instruments, whose value is largely determined by reference to some other market, such as stocks or currencies, has now become a more familiar and less controversial part of the financial markets.

The overall health of the derivatives markets has been helped by the low level of credit losses suffered by traders. The value of contracts on which payments were more than 30 days late in the first quarter of the year amounted to less than 0.01 per cent of the total, the OCC said.

"This low delinquency figure reflects both the current healthy economic environment and the generally high credit quality of counterparties and end-users with whom banks presently engage in derivatives transactions, as well as the increased use of collateral," it added.

Derivatives based on interest rates generated earnings of $1.4bn during the quarter, while foreign exchange instruments produced earnings of $690m. Banks also earned $246m from equity derivatives and $97m from commodity contracts.

Taiwan drive to shore up faltering support

Fears are growing that more countries in the Caribbean may switch allegiance to Beijing

By Canute James in Montego Bay

Mr John Chang, Taiwan's foreign minister, will today begin a 10-day visit to several Central American and Caribbean countries, to shore up faltering diplomatic support from the region.

About a half of the 30 countries which recognise Taiwan are in the Caribbean basin, but there are indications that several might follow the Bahamas, which last month switched diplomatic ties from Taiwan to China.

The Bahamian move coincided with the approval by the Caribbean Development Bank of an application by China to become a non-regional, non-borrowing member, despite calls from several members that Taiwan should also be admitted.

The Dominican Republic, which has diplomatic ties with Taiwan, said last week that it will re-establish economic ties with China this month to gain access to that country's growing market.

Dominican officials said this indicated a "change in diplomatic emphasis" which would eventually lead to a break in ties with Taiwan and the establishment of diplomatic links with China.

Mr Chang's visit will precede a visit to Panama in September by President Lee Teng-hui to attend a conference on the future of the Panama canal.

Caribbean and Central American government officials say that Mr Chang will be trying to consolidate a bloc of regional diplomatic support for the island, which is regarded by China as a breakaway province. Beijing does not recognise countries which have diplomatic ties with Taiwan.

Taiwan's concern about defections to China has deepened because it fears that this week's handover by Britain of Hong Kong to China will bring it increased pressure from Beijing. "Now is the time that Taiwan needs its friends, but it seems to be losing them," said one Caribbean diplomat.

Taiwan's President Lee (left) and foreign minister Chang

Mr Chang will reinforce Taiwan's economic assistance to the countries in the region with which it has diplomatic links, and is likely to promise increased support through an economic co-operation pact which it has with seven Central American nations.

Mr Chang hopes to agree a similar pact with several eastern Caribbean islands. The Bahamian decision to switch to China is a result of the handover of Hong Kong. The archipelago of 260,000 people hopes to become a big player in the region's growing shipping business with the recent commissioning of an $80m trans-shipment terminal on Grand Bahama Island.

The container terminal is a joint venture between Hutchison International Port Holdings, the port operating division of the Hutchison Whampoa Group of Hong Kong, and the Grand Bahama Port Authority.

With the return of Hong Kong to Chinese rule, Hong Kong-based companies, such as the Hutchison Whampoa Group, have come under Chinese jurisdiction.

Bahamian officials said Taiwan had indicated its "discomfort" with a Chinese company having such an important role in the country's economy.

"The planned expansion of Bahamian economic, investment and trade relations in Asia and the return of Hong Kong to the People's Republic of China from July 1, have not been without effect upon the government's decision," said Mrs Janet Bostwick, Bahamas' foreign minister.

A wholesale and immediate defection of Taiwan's friends in the Caribbean basin is unlikely, say regional diplomats. They suggest, however, that Mr Chang's visit will be followed by increased financial assistance from his government to countries such as Grenada which show little inclination to switch to China.

"We are aware of what is happening in the international community these days, and we have difficulty getting meaningful help," said Mr Keith Mitchell, Grenada's prime minister.

"I find it extremely difficult to not want to use the resources made available to us by a traditional friend."

هكذا من الاصل

Governments strive to avoid repeat of last year's clashes over parade in nationalist streets

Irish PM urges ban on Protestant march

By John Murray Brown in Belfast

The governments of Britain and the Republic of Ireland were on a collision course last night after Mr Bertie Ahern, the Irish prime minister, urged the UK not to allow an Orange Order march on Sunday from Drumcree to Portadown. Last year's march in the area pitched Northern Ireland into weeks of sectarian unrest.

"Clearly no one wants to see the march forced through as it was last year," Mr Ahern said. "No one wants to see people reined in as they were last year." He was speaking in Belfast, the capital of Northern Ireland, after meeting Ms Mo Mowlam, chief minister for Northern Ireland in the British government.

Mr Ray Burke, the Irish foreign minister, said on RTE radio in Dublin that "it would be folly for the march to be forced through" on the Orangemen's traditional route down the Garvaghy Road, the centre of nationalist opposition.

The British government's decision to allow the parade through the area last year triggered violent clashes between police and nationalist residents.

Ms Mowlam said no decision had been made about whether to allow the march or to re-route it, and she was still trying to find a compromise between residents of the Garvaghy Road and local Orangemen.

Speaking at the Irish Congress of Trade Unions conference in Belfast, Mr Ahern applauded Ms Mowlam's "excellent efforts" to find a local solution to the crisis and said he would do all he could to help. But asked if he would support her decision on the march, Mr Ahern said: "That will depend on what it is."

Last summer, Mr Ahern, then in opposition, was highly critical of Britain's decision. His comments yesterday indicate that his government will not offer unconditional support to Ms Mowlam.

Mr Ahern last night met the Garvaghy Road nationalist residents' groups in Dublin to urge a compromise solution. He is also due to discuss the matter in his first meeting with Mr Tony Blair, the British prime minister, in London tomorrow.

Tension was further raised last night by an announcement that Roman Catholic residents in Drumcree planned to stage nightly pickets. They said the decision was intended "to demonstrate to Mo Mowlam that we are not the least worst option and we are not the lesser of two evils".

Ms Mowlam said she was "a bit surprised" by the announcement but hoped that it would be lawful and that "common sense would prevail".

The two governments were thought to be considering a compromise under which the Orangemen would be allowed to march on condition that the parade was postponed until November, when tension in the region might be lower.

● A London jury failed yesterday to reach a verdict in the trial of an alleged IRA gang accused of plotting to blow up a series of electricity supply stations across London and south-east England.

During the three-month trial at the Old Bailey (the central criminal court), the prosecution claimed that eight men conspired last July to cause explosions in and around the capital. It was part of a spectacular scheme that would have plunged large parts of the region into darkness, the prosecution said.

The men were arrested at three addresses in south London and one in Birmingham after an undercover police surveillance operation in which alleged bomb-making equipment was discovered. Seven of the eight are accused of being members of an IRA active unit operating on the British mainland. All eight deny conspiring to cause explosions.

One of the accused men claimed in evidence that detectives had uncovered the blueprint for an elaborate hoax. He said the plan was to make the authorities shut down electricity supplies themselves in the belief that fake devices planted at the power stations were real bombs.

Reuters

A policewoman guards a London court in which seven men are accused of being IRA members

Rivals of IRA borrow its terror tactics

Paramilitary groups condemn 'increasing pressure from America and the Irish government', reports Jimmy Burns

The Irish Republican Army still has the capacity to grab international headlines. But their deepest enemies, the "loyalist" paramilitary groups, equally hold the key to whether Northern Ireland lives in peace or disintegrates into sectarian violence.

During the "troubles" of the 25 years from the arrival of British soldiers in 1969 to the IRA ceasefire of 1994, the ...assions of the majority ...rotestant community – ...elled by "loyalist extrem...s" – has driven the politi... agenda as much as ...cks by the IRA.

...e main loyalist paramil... groupings – the Ulster ...nteer Force, the Ulster ...ce Association and the ...and Commando – are ... under the Combined ...t Military Command .... Its self-proclaimed ... is essentially reac... help "defend" the Protestant community and members of the security forces from attacks by the IRA and other republican paramilitary groups.

The loyalist organisations have tried to mirror the IRA and Sinn Féin, the IRA's political wing, by linking themselves to political parties. The UVF is close to the Progressive Unionist party and the UDA to the Ulster Democratic party. Further echoing the IRA, they have also targeted innocent members of the opposite community, in this case Roman Catholics. Similarly they have intimidated members of their own Protestant community with extortion and "punishment beatings".

Officially, the CLMC has suspended military operations since declaring a ceasefire in October 1994, although the containment of loyalist terrorist activity has been under strain ever since the IRA ended its ceasefire with a bomb in London in February last year.

Both the Progressive Unionist and Ulster Democratic parties made substantial electoral gains in Belfast during May's local elections in Northern Ireland. Yet there is no certainty that loyalist extremists are prepared to accept a democratic non-violent agenda.

Leaders of Sinn Féin, including chief strategist Mr Martin McGuinness, insist that the CLMC – with the "connivance" of the British army and police – is following a policy of "no claim, no blame".

While the IRA continues to admit responsibility for attacks, most of the continuing attacks on Catholics remain unclaimed by the CLMC or any single loyalist paramilitary organisation linked to it. They include in the past two months one car bomb attack, a shooting, and one fatal mass lynching.

Security sources believe that such attacks reflect continuing tensions within the CLMC – which has never had the organisational discipline of the IRA.

One focus of major concern is the activities of a group outside the CLMC called the Loyalist Volunteer Force (LVF) which is thought to have carried out a series of attacks on Catholics over the past year.

It is also thought to have infiltrated some of the annual parades of the loyalist Orange Order which last summer sparked off riots throughout Northern Ireland. A planned Orange Order parade for this Sunday at Drumcree is at present the issue of maximum tension in the region.

According to security sources, the military strength of the LVF and the CLMC is smaller than the IRA's, partly because their access to international suppliers has been more limited and partly because they rely on the British army and the Northern Ireland police to contain republican paramilitary activity.

The combined armed strength of the loyalist paramilitaries is thought to be about 200 compared to between 500 and 600 on the IRA's side. While they have no shortage of small arms, their bomb-making capacity, including the use of Semtex, falls short of the IRA's.

Mr Jim Rogers, a Belfast member of the Orange Order, warned yesterday that loyalist paramilitaries were becoming increasingly angry about what they saw as "increasing pressure from America and the Irish government" to bring "IRA/Sinn Féin" into negotiations.

"The feeling is that the British government has made too many concessions and is letting other people dictate how to run our affairs," Mr Rogers said.

Ominously, Mr Rogers warned that the government was risking fuelling a violent loyalist backlash if it was seen to concede too much to the Catholic community during this summer's marching season.

...umple zone: with test dummy in the driving seat, a Rover 600 meets an immovable force in the road research laboratory

Mercedes and BMW score low in crash tests

By John Griffiths in London

Mercedes, BMW and Saab are in the bottom half of safety rankings for safety tests of medium cars released yesterday. They came well below the Ford Mondeo and General Motors Vectra. Only Volvo's S40 family saloon, product of a Netherlands-based joint venture with Mitsubishi of Japan, gained a maximum safety score in the tests by the Euro NCAP consortium.

The consortium is comprises the Fédération Internationale de l'Automobile, the umbrella organisation for the world's motoring clubs; International Testing, grouping 25 European consumer organisations; the Swedish government's National Road Administration; and the UK's Department of Transport, Automobile Association and Royal Automobile Club.

The tests, conducted at the Transport Research Laboratory in southern England, were attacked by the Society of Motor Manufacturers and Traders as misleading to consumers. The society and the European Automobile Manufacturers Association reacted similarly in the spring when Euro NCAP published crash tests criticising "superminis". The tests are conducted at 64 kph for the frontal impact against a barrier and at 48 kph for side impact – well above the standards of "official" EU tests to be introduced next year.

Only Volvo's S40 merited a four-star rating. Ford's Mondeo, the Nissan Primera, Renault Laguna, Vauxhall Vectra and Volkswagen Passat achieved three stars. Two stars went to the Audi A4, BMW 3-Series, Citroën Xantia, Mercedes C-Class, Peugeot 406, Rover 600 and Saab 900.

Airline cabin crew name date for strike

By Robert Taylor and Michael Skapinker

The threat of industrial conflict at British Airways which could affect the company in many countries increased last night with the announcement that 9,000 cabin crew who are members of the Transport and General Workers' Union will strike for 72 hours from next Wednesday at the start of a promised rolling programme of stoppages.

The union's ground staff members also in dispute with BA agreed yesterday to a 48-hour pause until 14h00 London time tomorrow before deciding on strike action, allowing negotiations to proceed with management. They are opposed to BA's decision to sell off its award-winning catering operations to another company.

Relations between the airline and the TGWU worsened last night when Mr Robert Ayling, BA chief executive, said he had written to Mr Bill Morris, the union's general secretary, suggesting that an outside mediator be brought in to help solve the cabin crew dispute.

Mr Ayling said Mr Morris's response had been to announce the strike. Mr Ayling said this was "confrontational union behaviour of the worst sort". He was not prepared to renegotiate an agreement the company had already reached with Cabin Crew 89, a smaller union. Mr Ayling said rivalry between the two unions was the cause of the dispute.

"The issue at stake now is how BA is being managed," Mr Morris retorted.

The gravity of the looming conflict was highlighted by the intervention of the Trades Union Congress backed by the main UK unions with members employed by BA. It warned the company it would call for a consumer boycott of the airline if the strikes go ahead. The TUC added it would call on trade unions around the world and the International Transport Workers' Federation to take "supporting action".

Bond salesman wins race case against Goldman

By Robert Taylor in London

An African-American bond salesman employed by Goldman Sachs in London has won his case before an industrial tribunal where he alleged he had lost his job because of racial discrimination. Mr James Curry, who worked for Goldman Sachs from 1990 until January 1995, claimed that his salary had been cut and he had been passed over for promotion before being made redundant because of his racial origins.

"This is the first stage of my battle," said Mr Curry last night. "The tribunal have yet to decide the amount of my compensation. I am, however, delighted with what we have achieved so far. Bringing this case was the most difficult decision of my life."

"What has sustained me throughout this time was the thought this was not just about me," he added. "I hope this will encourage and promote fairer employment practices within Goldman Sachs." Mr Curry works now as a managing director for Merrill Lynch.

Goldman Sachs said last night it did not agree with the tribunal's ruling. "Discrimination on any grounds is and always has been strictly forbidden by our business principles and standards of practices," it said.

"Discrimination would be directly contrary to our central philosophy and the pre-requisite for our success."

Goldman Sachs said that it had staff from 53 nationalities represented in its London office alone. Mr Curry was dismissed in 1996 for alleged "deteriorating performance". He formerly worked for Chase Manhattan Bank.

Minister orders fresh probe into soccer stadium deaths

By Liam Halligan, Political Staff

A fresh investigation into the Hillsborough disaster has been ordered by Mr Jack Straw, home secretary, after a long campaign by families of those who died in the 1989 soccer stadium tragedy in the northern England city of Sheffield.

In the disaster, 96 Liverpool fans died from injuries suffered in the crush as supporters poured into the Sheffield ground for their team's FA Cup semi-final tie with Nottingham Forest.

The affair was later investigated by Lord Taylor, who concluded that a failure of police control was the main cause. He made 43 interim recommendations and a further 76 final recommendations, which transformed the presentation of soccer and introduced all-seater grounds.

Mr Straw announced that Lord Justice Stuart-Smith, a senior judge, would scrutinise new evidence on the tragedy to investigate whether a further public inquiry was needed.

"I hope that this examination will enable us to establish conclusively whether or not material evidence about the causes of the Hillsborough disaster has been overlooked," he said. He added that there had been a "profound improvement" in the behaviour of fans at football grounds.

The decision to hold a further inquiry was welcomed as "a spoonful of justice" by a group of bereaved relatives who had been invited to London by Mr Straw.

Mr Trevor Hicks, chairman of the Hillsborough Families Support Group, said: "This isn't a quest for vengeance. It isn't a witch hunt. We feel we got what we came for."

Victims' families – who dispute the original inquiry's finding of accidental death – have been demanding an investigation into fresh video and medical evidence which has emerged relating to the handling of events by South Yorkshire police.

The Crown Prosecution Service had previously decided there was insufficient evidence to prosecute any of the police involved but last March announced that it was reviewing the case in the light of new evidence. This review is still going on. Mr Straw told the House of Commons that he had asked the judge to establish whether there was enough new evidence to justify a full public inquiry or criminal prosecutions. Lord Justice Stuart-Smith could also recommend disciplinary action against individual officers from South Yorkshire police – although as the senior officers concerned have retired on medical grounds, it is thought unlikely.

Mr Richard Wells, South Yorkshire's chief constable, welcomed the review but stressed it was still the force's belief that "nothing new has come to light" since Lord Justice Taylor's original inquiry. "We fully co-operated with the earlier judicial investigations and we have nothing to fear from this new investigation," he said.

Mr Wells insisted there was no new video evidence. But the families believe a videotape taken from a closed circuit television camera trained on the Leppings Lane end of Sheffield's stadium, where the disaster took place, casts doubt on the police version of events.

UK NEWS DIGEST

US is urged to rejoin Unesco

The UK yesterday rejoined the United Nations Educational Scientific and Cultural Organisation (Unesco), at a ceremony attended by Ms Clare Short, chief international development minister in the British government.

She said that the Labour party would probably not have withdrawn from Unesco had it been in power just over a decade ago when the UK resigned following the decision of the US to pull out of the organisation in protest at its ideological stance and mismanagement. But she said reform of Unesco had been necessary.

Mr Frederico Mayor, Unesco director-general, said he hoped that the US would also rejoin shortly, after President Bill Clinton's announcement in 1995 that he had no ideological objections and was blocked simply by budgetary objections of Congress to the United Nations system. He argued that the US should base its decision to rejoin on the reforms made at Unesco, separated from broad debates in Congress about other United Nations organisations.

Andrew Jack, Paris

■ LABOUR'S BUDGET

House buyers rush to avoid tax

House buyers rushed yesterday to complete purchases to avoid paying thousands of pounds in extra tax if stamp duty is raised today in the Labour government's first Budget. The pressure to exchange contracts (complete purchases) was strongest in London and south-east England where house prices on average are higher and where the burden of any increase in duty will be greatest.

The tax, currently levied at 1 per cent of sale price on homes costing more than £60,000 ($99,000) has been forecast to rise by a further one or two percentage points.

● *Halifax*, Britain's biggest mortgage lender, reported yesterday that average house prices had risen 0.3 per cent last month taking the average annual increase to 7.1 per cent.

Andrew Taylor, London

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■ POST OFFICE

Warning as profits rise sharply

The Post Office yesterday announced sharply increased pre-tax profits of £577m ($952m) in 1996-97 but warned that the need to generate cash for the Treasury posed a serious problem for the future.

The rise in profits, up from £423m in 1995-96, was mainly due to the higher postal charges introduced to enable the Post Office to meet its obligations to the Treasury. The increases in the price of stamps raised additional revenue of about £130m.

Sir Michael Heron, who announced he would stand down as chairman at the end of the year, said the Post Office had contributed £235m to the Treasury and would pay a further £216m in corporation tax.

But he warned: "A successful Post Office cannot continue to be run simply as a cash cow for the government." It needed a relationship with the government that helped the business rather than one that put undue emphasis on the need to generate cash.

Alan Pike, London

Lex, Page 14

■ LLOYD'S OF LONDON

New business unit established

Lloyd's of London has established another business unit alongside the five it created last year under a restructuring of its central services division. A management buyout of Lloyd's of London Press two years ago left a business providing loss-adjusting services to aviation insurers on its own. Lloyd's said yesterday that it has appointed a board to manage this division and that Mr John McKay would be chief executive.

Christopher Adams, London

■ MANUFACTURING SURVEY

'Modest growth' in export orders

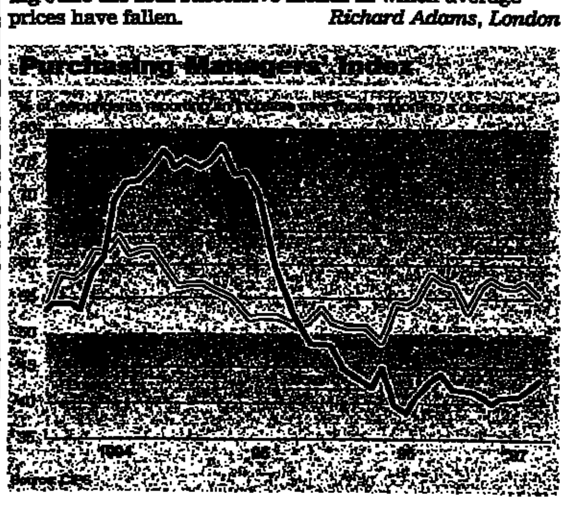
Manufacturers continued to expand their production last month, but price pressures remained subdued, according to a survey of UK companies published yesterday. The survey of manufacturing purchasing managers reported that output grew for the 13th consecutive month in June, as more than four out of five companies said their production was higher or at the same level as the previous month.

"Buoyant demand from UK consumers provided the principal source of new business, while export orders grew only modestly," the Chartered Institute of Purchasing Managers said. A quarter of the 310 companies surveyed recorded higher output in June than in May, while only 15 per cent of companies reported lower output.

However, the survey's overall output index level of 55 was lower than May's 57.1, and the weakest so far this year. "The weakness takes some of the momentum off the 'we're going to the moon' sentiment which has set in the last few weeks, leading to exaggerated expectations of interest rate increases," said Mr Simon Briscoe, economist at Nikko Europe.

There is little evidence that strong domestic demand has forced up the prices of materials. The survey reported that 93 per cent of manufacturers said the prices of their purchases were either lower or the same last month, making June the 20th successive month in which average prices have fallen.

Richard Adams, London



LEGAL NOTICES

IN THE MATTER OF UNCHAINED GROWTH PLC AND IN THE MATTER OF THE INSOLVENCY ACT AND INSOLVENCY (SCOTLAND) RULES 1986

In accordance with Rule 4.19 as amended by Schedule 2, I John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY give notice that on 24 June 1997 I was appointed Liquidator by a Resolution of members.

Notice is hereby given that the Liquidator of the above named company, intends to make a first and final distribution to creditors. Creditors are required, on or before 26 October 1997, being the last date for proving, to send in their full Christian and surnames, and addresses of their Solicitors (if any), to the undersigned John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY the Liquidator of the said company, and, if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts and claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution.

A first and final dividend is intended to be declared and paid on 23 December 1997.

Dated 26 June 1997

J W POWELL Liquidator

هكذا من الأصل

BUSINESS AND THE ENVIRONMENT

Something in the air

Taiwan is beginning to get to grips with its pollution problems, writes **Laura Tyson**

Environmental authorities in Taiwan are faced with a daunting task – cleaning up the unpleasant side-effects of the country's "economic miracle".

But to those who are enterprising, such problems can also present business opportunities, one of which led to a meeting in Taiwan last month between Lee Iacocca, former chairman of Chrysler, the US carmaker, and Wang Yung-ching, chairman of Formosa Plastics, Taiwan's biggest industrial group. The two men discussed development of an electric-powered motorcycle to rival in capability the petrol-driven models widely used today.

If successful, the government-backed project would revolutionise the motorcycle industry and help the cabinet-level Environmental Protection Administration solve one of its thorniest challenges – improving Taiwan's dismal air quality. But Iacocca suggested production of a commercially viable electric-powered motorcycle was 10 years away.

Officials say the small, densely populated and heavily industrialised island has among the world's worst air, leading to alarmingly high rates of asthma, allergies and other respiratory ailments, especially among children.

Developing countries now making the transition from bicycle to motorcycle – such as Vietnam and China – would do well to learn from Taiwan's travails. Thailand is already adopting pollution control measures based on Taiwan's experience.

Taiwan's air pollution problems come from two main sources: the island's 90,000 factories (stationary sources) and its 14.5m motor vehicles (mobile sources). Of total pollutant emissions last year, transportation sources were responsible for 60 per cent and factories, including power stations, for the rest.

Transport officials recently predicted that the number of motorcycles would rise to 10m by 2001 and the number of cars and other vehicles would climb 8 per cent to 5.5m from just over 5m today. The environment body's officials warn that without stiffer control measures, the growth of Taiwan's juggernaut economy could wipe out improvements in air quality already achieved.

One of the chief culprits is Taiwan's favourite mode of transportation: the cheap and trusty two-stroke engine motorcycle, which accounts for 60 per cent of the island's nearly 9.5m motorcycles. This type of engine emits up to 10 times the amount of hydrocarbons produced by a car, depending on the model, age and maintenance of the vehicle.

The environment body has launched an ambitious counter-offensive, setting up emission control standards modelled on those in California – among the most stringent in the world – and promising to rid Taiwan's roads of the two-stroke engine by 2000.

'We really want to promote the electric motorcycle, because it is the best solution'

Hsiao Hui-chuan, deputy director of the body's air quality bureau, points to substantial progress since 1992, when the national legislature passed stricter air pollution control laws.

In 1991, the percentage of days on which the pollutions standards index registered over 100 – above which is considered dangerous to human health – was 16.2 per cent. In 1996, the corresponding figure was 6.5 per cent – much better but still far higher than the average 2 per cent for developed countries.

"Because air quality standards are improving, measurements of airborne particulate of all types is decreasing steadily, but ozone levels continue to rise," she says. The body will step up efforts to cut emissions of the precursors of ozone, which include volatile organic compounds and nitrogen oxide.

Of the 183 models of motorcycle sold in Taiwan, 21 have already met stringent new emission standards set to come into force next year.

"We really want to promote the electric motorcycle, because we believe it is the best and maybe the only long-term solution to our special pollution problems," says Hsiao. "But for the high-performance battery, the price is too expensive." A top-of-the-line Japanese electric-powered motorcycle costs T$200,000 (£4,319) compared with T$30,000 for a lesser-quality Taiwanese model. But the latter's performance cannot compare with that of an ordinary motorcycle which can be had for T$25,000.

To encourage the use of electric motorcycles, the body will require every manufacturer to ensure that they comprise 2 per cent of production by 2000. With total domestic motorcycle production of 1m a year, this translates into 20,000 electric motorcycles.

Although it offers a T$5,000 rebate to buyers of electric motorcycles, takers are few because such motorcycles are heavy, slow and have to be recharged frequently. Charging stations are rare, but the environment body will provide subsidies to office buildings which install them.

For factories and other emission sources, such as power plants, the environment body has adopted a package of carrot-and-stick measures based on the US model to reward companies with good records and penalise those which pollute most through emission fees.

For buses and taxis, subsidies are offered to convert to clean-burning fuels such as liquid petroleum gas, compressed natural gas, or liquid natural gas. Subsidies are also available for setting up LPG stations, of which there are insufficient.

Standards for sulphur and lead content of fuels are being progressively tightened; at present, 82 per cent of petrol sales are leaded.

Vehicle inspection is being increased substantially and roadside emissions monitoring, or remote sensing, techniques are being stepped up to catch offenders.

When air pollutions laws are again revised, the environment body will be allowed to levy fines on polluting drivers; now they are let off with a warning.

But until a breakthrough in battery technology is found, Taiwan residents may not see a significant break in the island's pollution problems.

Taiwan's environmental challenge

	Population density (person/km²)	Motor vehicle density (number/km²)	Factory density (number/km²)
Taiwan	589	367	4.32
USA	27	20	0.04
Japan	332	211	1.14
Germany	228	99	0.12
UK	233	102	0.60
Netherlands	414	185	0.44

How ICI weighs up the cost of waste

The chemicals company is pioneering a new approach in the UK, writes **Michael Peel**

Chemicals company Imperial Chemical Industries is pioneering in the UK a new approach to environmental reporting, which it says will make the impact of its operations easier to understand.

The new approach, called the environmental burden method, designates an overall environmental cost to each type of waste, rather than listing volumes of waste products. The burden comprises both the quantity discharged and the relative potency of the waste.

The approach is already in use at Tioxide, the ICI division which makes the white pigment titanium dioxide. It claims it significantly cut its contribution last year to ozone creation and its pollution of air and water.

But Tioxide's first environmental results using the new method have been overshadowed by six gas leaks and by claims that ICI is using the technique to gloss over its failure to meet previous waste targets.

John Russell, commercial director of Tioxide, says the method gives more useful information about environmental impact at small cost to the company. "It's a way of getting away from the crude method of looking at the volumes of waste. Very often when you make a gain in environmental impact in one area it can have a negative effect in another area."

For instance, Tioxide last year released 17 times as much iron as manganese. But manganese has a 20 times more toxic effect on the aquatic environment, so the environmental burden of the manganese waste was greater.

The burden method also accounts for the fact that a single waste item may have more than one damaging effect.

When exposed to sunlight, some volatile organic compounds undergo reactions which lead to the creation of poisonous low-level ozone. But the far greater contribution these organic gases make to global warming is reflected in a potency factor nearly 25 times higher than for ozone creation.

Tioxide needs some good publicity. Last month the Environment Agency, the government's pollution watchdog, forced the company to close part of its works at Greatham, near Hartlepool, following an emission of potentially toxic titanium tetrachloride gas.

The agency said it was the sixth "significant" release of the chemical since December 1995.

Some environmentalists have accused ICI of using the method to divert attention from its missed 1995 waste reduction target. ICI last year released 3.9m tonnes of waste to air, after saying in 1990 that it would cut emissions to 2.75m tonnes by 1995. Much of the disparity resulted from a big increase in Tioxide waste. The company's total waste output increased by 34 per cent between 1992 and 1996, although Russell says it rose 5 per cent in real terms because of increased sales of waste products.

He says the figures have been skewed by a steep increase in production of gypsum, a by-product of the neutralisation of acids. The company has to neutralise its acid waste to comply with an EU directive.

"Historically, the titanium dioxide industry has been seen as a dirty industry in that it produces an awful lot of waste," he says. "Going from 1995 to 1996 we have made significant improvements in all areas except global warming."

He says the company intends to look for ways to compare the effects of changes in different burden categories: is a 10 per cent decrease in global warming, for instance, more or less valuable than a 10 per cent fall in ecotoxicity?

Mike Childs, senior campaigner in the UK on industry and pollution for Friends of the Earth, the environmental pressure group, welcomes the move towards a more sophisticated method of environmental assessment. "It looks as if they have been very open about what they are releasing," he says. "It is fair to say that it is better than many in the chemical industry although clearly we have got a long way to go before we have full and open disclosure in the UK."

Childs believes the UK should adopt a system like the US toxic release inventory. Details of emissions of hundreds of toxic chemicals filed by companies are collated by the US Environmental Protection Agency in a publicly accessible database. "This means you can analyse different releases from different industries and different companies, which allows you to produce league tables of toxic pollution," says Childs.

How did Edwina Currie learn the art of living – and lunching – in the Loire Valley? Why are consumers getting trampled in the battle of the big brand sports shoe? **What dark secrets lurk behind designer sunglasses?** And why does it take a second car to reach the inner man?

Find out in **how to spend it** magazine, Colour Supplement of the Year in the 1997 Newspaper Awards, published next Saturday with the Weekend FT.

FINANCIAL TIMES
No FT, no comment.

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ARTS

Television/Christopher Dunkley

Good intentions and bad practices

In *Plays Pleasant* Bernard Shaw wrote "Everything I think is mocked by everything I do". It would make a good motto for television. Broadcasters think and talk endlessly about high quality drama and keep on launching more and more detective series. Last Saturday and Sunday evening on BBC1, ITV and Channel 4 you could have seen *Dalziel And Pascoe*, *Inspector Morse*, *Millennium*, *Tropical Heat*, *Homicide*, *Pie In The Sky* and *Wycliffe*. Goodness knows what the weekday total is. They talk about increasing choice even as they switch sports events or movies which previously we would have seen cheaply as part of a package, or for nothing, onto subscription channels where we have to pay through the nose. They boast about improving the quality of sport even as they transforming huge areas of it into one of the nastier sorts of show business.

The rule applies in almost all parts of the schedule. Take the case of unidentified flying objects, which were the subject of an entire season on ITV last week. It is probably best at this point to declare that I was convinced more than 35 years ago by a mathematician that the idea of earth being the only planet among the billions in the universe to provide the necessary conditions for the development of life was absurdly unlikely. I have subsequently concluded that the way otherwise intelligent people scoff at the notion of extra-terrestrial life is remarkably similar to the way in which otherwise intelligent people used to scoff at the idea that the earth was not the centre of the universe.

However, the possibility of extra-terrestrial life being humanoid – little green men with bulging foreheads, or little grey men with almond shaped eyes – also seems laughably unlikely. Life forms elsewhere could be carbon based, astronomically big, microscopically small, or dramatically different from terrestrial life in innumerable other ways. It seemed pretty clear that the popular belief in alien manikins (especially those supposedly specialising in the abduction of people from the US bible belt) ought to be considered alongside the inability of men to create gods other than in their own image.

Ostensibly ITV's approach to this subject in its season "Into The Unknown" was open-minded and neutral. Evidence would be collated and considered from all sides, time would be given to believers and sceptics, common sense would prevail. But broadcasters are incapable of resisting anything that can be described as "good television", and when it comes to UFOs and extra terrestrial life that means nutters. No doubt the broadcasters set out believing that what they wanted was neutrality and common sense, but they ended up giving umpteen more platforms to the loopy alien abduction brigade.

The climax came in Friday evening's 90-minute live debate, *Strange But True?* chaired by Michael Aspel, with teams of believers and disbelievers in front of a studio audience whose votes on the question "Have aliens visited earth?" were hugely outnumbered by phone-in votes from 100,000 viewers, 92 per cent of whom voted "Yes". As Michael Aspel dryly suggested, this probably proved that sceptics do not generally watch such programmes. Yet much of this one was admirable. Some of the most famous UFO "sightings" from some of the least loony sources were described and in most cases explained away by sceptical scientists.

The trouble was that the broadcasters just could not make do with those few stills and even fewer bits of film or videotape which purport to show alien visitations; they had to cobble up their own far more dramatic footage. And so when it came, for instance, to the Rendlesham Forest story in which men from a USAF base in East Anglia reported seeing an alien craft two nights running, we were given the full monty: film of men rushing around in the dark, dry ice, blue key lighting, sound effects, a sinister red triangle revolving above the treetops and so on. Common sense and neutrality sank without trace as whatever the broadcasters may have thought was mocked by what they did.

Next night came *Millennium: Fact Or Fiction*, a documentary which, even though it amounted to a 50-minute puff for the new American series *Millennium* starting on ITV on Sunday night, turned out to be an intriguing investigation of criminal profiling, the process in which psychological insights are used to build up a picture of the likely perpetrator of crimes, especially serial murders. Having made the interesting points that Sherlock Holmes was the first profiler, and the character played by Robbie Coltrane in *Cracker* one of the most eccentric, the programme went on to explain the background to *Millennium*. It seems that the "Millennium" group of ex-FBI specialists in this series created by Chris Carter (who was responsible for *The X Files*) is based upon a real outfit called The Academy Group. They pool various sorts of expertise in the profiling effort.

Having been told that, however entertaining, the *Cracker* series was wholly inaccurate in showing a profiler in close contact with suspects (never mind browbeating them into confession), the idea of *Millennium* showing the real thing seemed tempting. Yet when the series began on Sunday what did we get? A backroom boy who avoids contact with suspects and methodically constructs word pictures relying upon the pooled talent of a lot of old, wise heads? No, we got a male version of Mystic Meg who – as in every other detective series – rushes around from one scene of crime to another. But unlike most sleuths this one relies upon blinding flashes of psychic insight to suss out the bad guys: his eyes glaze over and the screen is covered in flame. Yet again what the broadcasters thought, and led us to think, has been mocked by what they have actually done.

Perhaps it was inevitable: a quiet, plodding profiler, working in the way that the documentary explained, would hardly whip up the sort of interest we had come to expect from *The X-Files*. For that you need mysticism and terror – which, sure enough, *Millennium* delivers in tumbrel loads. Indeed, this opening episode contained some of the most unpleasantly explicit pictures I have seen, including the digging up of a victim who had been horribly disfigured and then buried alive in a coffin, with the severed head of another victim, which was obligingly held up for the viewer to get a better look.

That, of course, is not the sort of thing that broadcasters like to boast about in promotional documentaries, but actions speak louder than words.

Theatre

Turn up the heat

Chichester audiences love a big name; that at least is the mantra, and it is one that festival director Duncan Weldon fulfils to the letter. Appearing in *Tallulah!* at the Minerva studio theatre is Hollywood's biggest box office female star of the 1980s, Kathleen Turner: it is a promoter's dream.

Movie stars rarely transfer happily to the stage but it is with perfect confidence that I can confirm that Ms Turner is the best thing in this one woman show about another celebrated drama queen, Tallulah Bankhead. There is an undoubted, if slight, frisson from watching the sultry seductress of *Body Heat*, the spunky heroine of *Romancing the Stone*, working within eye contact distance.

Turner is almost impressive enough to carry Sandra Ryan Heyward's insipid monologue about the life of one of the great characters of the century. Kathleen Turner has Tallulah's bourbon-burned, tobacco-tanned, depth-charge of a voice; her expansive, all embracing "darlings" approach to the world; even her blousy, painted, theatricality. What she lacks is any coherent script to bring Tallulah alive. It is all surface, with no substance.

Tallulah Bankhead was one of the first stars to be famous for being famous. She had her theatrical moments, playing Amanda in *Private Lives* and Blanche DuBois in *A Streetcar Named Desire*, but anyone bigger on radio than in the movies never quite got there.

What made her a one-name wonder was her outrageous reputation – an early weakness for performing knickerless cartwheels in the Algonquin to amuse Dorothy Parker; a tendency to strip naked at parties; and, reputedly, a voracious sexual appetite for women as well as men. This was not quite what was expected from the daughter of the Speaker of the House of Representatives.

None of this naughtiness comes across in Heyward's pedestrian treatment. We find Tallulah, at 45, expecting friends in her boudoir, an elaborate set by David Jenkins. She talks discursively about her past, switching from London, where she romanced a bi-sexual peer, to New York, where she was a stalwart of the Democratic Party. She hints at outrageousness, but we are given no details of bizarre behaviour, no confirmations of decadence.

Kathleen Turner as Tallulah: a star in need of a script — Alastair Muir

We get the justifications, not the japes; the defensiveness, not the débâcles. Kathleen Turner does what she can well, holding the stage prone on her bed, casually treating individual members of the audience to confidences, making Tallulah (too) attractive, collapsing in a drunken heap. There is one moment of truth, an impassioned cry of "when did I become a joke?", but it is soon buried below the ramblings.

Half-way through the second half of this one-paced production, directed by Michael Rudman, comes the realisation that it could have ended half an hour ago, and could stop at any time. One-person shows, picking out the best anecdotes of a life and wrapping them in a star, need a strong script and a developing plot to justify the slight effort. *Tallulah!* is a mini triumph for Kathleen Turner and the star system, but it gets nowhere near Tallulah Bankhead.

Antony Thorncroft

Opera/David Murray

Grimm tale baldly told

The Juniper Tree is the first opera in this year's Almeida Festival. It comes from Hans Werner Henze's Munich Biennale, where in April it was widely adjudged the best of that festival's three or four new operas – which might just mean, of course, that the other two or three were rotten.

The composer is Roderick Watkins (b. 1964 in Norfolk, and a sometime student of Henze himself); the librettist, Patricia Debney. They have taken their story from a Brothers Grimm fairytale, one of the grimmer ones: so gory and grotesque, indeed, that you may never have come upon it. It concerns a Boy, his soon-lost Mother, his sad widower Father, a wicked Stepmother and her innocent daughter Marinchen, not to mention a magical bird, a chest with a lethal lid and a sinister stewpot.

Their words convey the story plainly and baldly. David McVicar's production is so plain as to look inept. Comparable operatic treatments of folktales – Judith Weir's, for instance – have generally preserved a kind of ironic cool on stage. Apparently that was not what Watkins had in mind.

His score for *The Juniper Tree* is suffused with expressive sympathy, usually darkling. Rich in lyrical, floridly ruminative solos for the likes of bass clarinet and alto flute, deft at capturing a new mood in original, imaginative instrumentation – much like Henze; but unlike the best of his teacher's stage music, quite irony-free.

For staging a story without any sly distancing (since Watkins' music invites nothing like that), Debney's pared-down script leaves a producer no clues to how characters and situations might be filled out in human detail. McVicar has not made that lack good; his actors offer no more than thin, conventional charades. Some are less embarrassed than others: Robert Poulton articulated the grieving Father in sonorous, convincing tones, and Louise Mott had some vivid moments as the distressed Stepdaughter.

Nevertheless the schematic action needed a forward impulse from the music which it never got, despite Markus Stenz's astute conducting of the London Sinfonietta. Watkins revels in "interesting moments" (with some ear-scathing eruptions, grossly under-prepared), but is content to trace his characters' fates at an abstract distance. Though things move steadily along, they never develop. At the end, one felt nothing – except perhaps tantalisement about the dramatic idea, admiration for the skilful score and frustration with the un-got-togetherness of the whole show.

Further performances at the Almeida Theatre, July 3,4.

Concert

The voice of Bach

The ensemble chosen to conclude this year's Lufthansa Festival of Baroque Music last Sunday was "La Petite Bande", founded 25 years ago in Belgium. Nowadays it comprises specialist performers from all over. In *St. James's, Piccadilly*, the festival's chosen venue, they played Bach.

Though personal fantasy and unabashed virtuosity are apparently not their thing, "La Petite Bande" played extremely well. But a vital question about any earlier musical time, probably unanswerable, is this: *did* audiences then expect their best players to be self-effacing – or would those talents strike us now, had they left recordings behind, as extrovert and fancy-free?

"La Petite Bande" opted for the decorous, literal alternative. In those terms, what they did was impeccable. Led by Sigiswald Kuijken (on violin, later on viola), they were clean and lucid in Bach's oboe-and-violin concerto BWV 1060, with Marcel Ponseele the sprightly oboist. Hearing the 6th Brandenburg Concerto on the proper instruments for once, with a "modern" trio of violas and cello set against old-fashioned *viole da gamba* and a *violone*, was a (mild) revelation. Their distinctive timbres sounded lovely at Kuijken's cautious tempi; but one yearned unregenerately for the spring that modern instruments can lend to the piece at brighter speeds.

The chief aim of the concert, however, was to give the counter-tenor Andreas Scholl a lot to do. In two complete cantatas – "Widerstehe doch der Sundë" and "Vergnügte Ruh" – and the only extant aria from a third, all familiar in mezzo and contralto versions that could not have been sung in the Lutheran church of Bach's time, Scholl was marvellous to hear.

His voice retains the shining innocence, sweet timbre and unstressful high notes of his long choirboy days (not very long past). To those, he has added acute sensitivity to Bach's stern theological texts. He never strove here to *Elektra*-fy the spiritual drama, but always to enliven the plain, urgent sense of the words.

With Scholl's brave gift for verbal colouring, the recitatives became eloquent sermons and conjured up what Bach's original sermonisers might really have done. Altogether Scholl's combination of a radiant just-past-boyhood sound with an earnest young man's didactic fervour seemed to fulfil Bach's recipe perfectly. While he continued, we hung upon every word, and they were all transparent.

D.M.

INTERNATIONAL ARTS GUIDE

■ BAD KISSINGEN

CONCERTS
Kissinger Summer Festival
Tel: 49-971807110
● Roger Norrington conducts the Czech Philharmonic in a programme of works by Schumann, Elgar and Dvořák; at the Regentenbau, Jul 2
● Tenor Peter Schreier and pianist András Schiff perform music by Schubert; at the Kurtheater, Jul 3
● Vladimir Válek conducts the Czech Philharmonic in works by Smetana, Prokofiev and Dvořák; at the Regentenbau, Jul 4
● Royal Philharmonic Orchestra: conducted by Thomas Sanderling in works by Haydn, Dvorák and Brahms; at the Regentenbau, Jul 5

■ CHELTENHAM

CONCERTS
Cheltenham Festival
Tel: 44-1242-227979
● BBC Philharmonic: conducted by Vassily Sinaisky in Brahms' Symphony No. 1 in C minor, a new work by John Buller and Tchaikovsky's first *Piano Concerto*, with pianist Boris Berezovsky; at the Town Hall, Jul 5
● RNCM Wind Orchestra: conducted by Tim Reynish in works by Mendelssohn, Sallinen, Strauss and Mozart; at the Town Hall, Jul 6

OPERA
La Bohème: by Puccini, performed by the European Chamber Opera; at the Everyman Theatre, Jul 8, 9

■ DROTTNINGHOLM

OPERA
Drottningholms Slottsteater
Tel: 46-8-4570600
Euridice: artistic director Per-Erik Ohm has chosen two of the first operas ever written for his first year at the festival's helm. Jacopo Peri's opera dates from 1600 and this is its Swedish premiere. Produced by Karl Dunér, and designed by Peder Freiij, with the Drottningholm Theatre Orchestra conducted by Jakob Lindberg; Jul 5, 8, 9

■ GRAZ

CONCERTS
Styriarte Festival
Tel: 43-316-825000
● Die Quintette: the Wiener Streichsextett plays string quintets by Brahms and Schubert, composers whose portrayal by this festival is as 19th century musicians with 20th century leanings; Jul 3
● Lamento: the "Red Byrd" vocal ensemble performs a programme *around Monteverdi's Lamento d'Arianna*; at the Schloss Eggenberg, Jul 6
● Nikolaus Harnoncourt, star of his home town's festival, conducts the Chamber Orchestra of Europe in the complete Brahms symphonies, presented as a cycle for the first time, as the Beethoven and Schubert symphonies have been presented here in the past. Symphonies 1 and 2 are performed on 4th and 9th; 3 and 4 on 7th and 10th; from Jul 4 to Jul 10; at the Stefaniensaal

■ LONDON

CONCERTS
City of London Festival
Tel: 44-171-638 8891
● Barbara Bonney: recital by the American soprano is among this week's festival highlights, accompanied by Helmut Deutsch in songs by Schubert, Clara Schumann, Brahms and Debussy; at Drapers' Hall, Throgmorton Street EC2; Jul 2
● Great Salzburg Mass: one of the grandest Baroque religious works, now attributed to Heinrich Biber. Performed by the Gabrieli Consort and Players conducted by Paul McCreesh, with Musica Antiqua from Cologne; at St. Paul's Cathedral, Jul 3

Royal Opera House
Tel: 44-171-304 4000
Simon Boccanegra (1857): British stage premiere of this, the original version of Verdi's opera. Mark Elder conducts, Ian Judge directs. Sergei Leiferkus, Plácido Domingo and Kallen Esperian star; Jul 4, 8

DANCE
Royal Opera House
Tel: 44-171-3044000
The Royal Ballet: mixed programme includes Twyla Tharp's *Push Comes to Shove*, William Forsythe's *Steptext*, and *Symphony in C*, choreographed by Balanchine to music by Bizet. The final performance will be the last ballet at Covent Garden before the theatre closes for renovation; Jul 5, 9

EXHIBITIONS
National Gallery
Tel: 44-171-8393321
Seurat and The Bathers: places Seurat's great "Bathers at Asnières" in a context provided by his own earlier work, and studies and drawings for the painting, as well as works by predecessors who influenced him, and by his Impressionist contemporaries; from Jul 2 to Sep 28

THEATRE
Shakespeare's Globe
Tel: 44-171-401-9919
Henry V: by Shakespeare: Mark Rylance stars as the young king in a production directed by Richard Olivier and designed by Jenny Tiramani; in repertory

■ NEW YORK

CONCERTS
Lincoln Center Festival 97
Tel: 1-212-875-5030
New York Philharmonic at the Avery Fisher Hall. Conducted by Kurt Masur in the first of three programmes celebrating the *music of jazz maestro Ornette* Coleman, whose octet Prime Time joins the orchestra in a performance of *Skies of America*; Jul 8, 9

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
The Glory of Byzantium: exhibition celebrating the Second Golden Age of Byzantine civilization from mid-9th to mid-13th centuries; to Jul 6

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-9865900
● Così Fan Tutte: Kenneth Montgomery conducts Mozart's opera, sung in English, in a new production directed by Nicolette Molnar and designed by Bruno Schwengl; Jul 2, 4
● La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Parisian demimonde. Patricia Racette is Violetta, Raymond Very is Alfredo, William Stone is Germont. Until July 9 the conductor is John Crosby, when Christopher Larkin takes over; Jul 3, 5, 9

■ SCHLESWIG-HOLSTEIN

CONCERTS
Music Festival
Tel: 49-431-567080
● NDR-Sinfonieorchester: opening concert of works by Schoenberg and Mahler conducted by Herbert Blomstedt; with soprano Karan Armstrong; at the Musik- und Kongresshalle, Lübeck; Jul 5, 6
● The Camerata Academica Salzburg performs a programme of works by Mozart and Schubert, conducted by Jordi Savall; at the *Schloss, Kiel; Jul 7, 8*

OPERA
Moses and Aron: by Schoenberg. Co-production between Oper Leipzig and the NationalTheater Weimar, in a staging by George Tabori, with sets by Gottfried Pilz. Matteo de Monti is Moses, Hans Aschenbach is Aron. George Alexander Albrecht conducts the Gewandhausorchester Leipzig; at the Staatsoper, Hamburg; Jul 9

■ TANGLEWOOD

CONCERTS
Tanglewood Festival
Tel: 1-617-931 2000
● Juilliard String Quartet: in a programme of works by Beethoven; *Ozawa Hall*, Jul 2
● Zdenek Macal conducts the Boston Symphony Orchestra in works by Brahms and Mozart, with piano soloist Garrick Ohlsson and the Tanglewood Festival Chorus conducted by John Oliver; at the Shed, Jul 5
● Boston Symphony Orchestra: conducted by Seiji Ozawa and John Williams in a programme of works by Rouse, Barber and Copeland, with violinist Gil Shaham and the Tanglewood Festival Chorus conducted by John Oliver; at the Shed, Jul 6

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Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

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Edward Mortimer

Check on anarchy

It is vital that international powers try to resolve other states' conflicts, but few are willing to intervene for long

"In recent years a growing number of countries have seen virtually all of the functions and institutions of government collapse, often in the context of civil war. When the state ceases to perform even its most basic functions, the associated crisis can be prolonged and severe."

So says the World Bank, in its World Development Report published last week. And the World Bank is not alone. More and more experts identify state collapse as the central problem of the "new world disorder".

Old-fashioned wars between states are now mercifully rare. Most wars today are civil wars, or at least they start as that. But they almost always have cross-border ramifications.

First in Uganda, then in Rwanda, then in Zaire, an old regime became so corrupt, brutal and inefficient that it lost its grip on power. Eventually it was replaced by a more dynamic one, with a degree of external assistance, but only after a long period of near-anarchy in which many people were killed and most of the survivors left destitute. In other cases, like Somalia, Liberia and Sierra Leone, external intervention has been less successful. Bloodshed and chaos continue.

Those examples are drawn from sub-Saharan Africa. But similar processes have happened in Cambodia, Afghanistan, Tajikistan, Haiti and most recently Albania. In each case domestic conflict triggered external intervention, but with very mixed results.

In such situations, outsiders feel impelled to intervene for reasons ranging from pure compassion to pure self-interest. Somewhere in between is the notion of international order – the sense that sooner or later we all stand to lose if anarchy is left completely unchecked.

But what can outsiders do? A well equipped and disciplined military force can usually stop the fighting quite quickly. The more it is prepared to fight, and if necessary take casualties, the less fighting it will actually have to do, and the fewer casualties it will incur.

In Bosnia from 1992 to 1995, a lightly armed United Nations peacekeeping force, with restrictive rules of engagement, took many casualties but was unable to stop the fighting. Since 1995, the implementation force, Ifor, and the stabilisation force Sfor – much heavier Nato-led forces – have kept the peace with virtually no casualties.

But now comes the hard part. Few intervening powers wish to keep their forces in place for long. That is very expensive, and soon becomes unpopular both in the occupied country and back home. Sooner or later the formerly warring parties are liable to unite against the occupying power.

So the search is on for a quick fix. The most popular one is to try and settle the conflict through the ballot box. But elections are seldom enough by themselves. When people have been ready to kill or be killed, they are not usually willing to put themselves in the power of the other side simply because it demonstrates numerical superiority in a vote, however free and fair.

"Reconciliation" is needed as well: perhaps a power-sharing government in which all parties are represented. But how, and by whom?

One argument says you should simply share out power among the warlords, who are best placed to control their forces. But warlords are often also war criminals, at least in the eyes of the other side. Will reconciliation be easier if such people are first eliminated from the scene? Or, on the contrary, will the attempt to hunt them down simply alienate their supporters, and make the intervening force itself one of the warring parties? That is what happened in Somalia. The fear of it happening in Bosnia explains the reluctance of Ifor and Sfor commanders to get involved in arresting war criminals.

Consolidating the power of warlords seems an odd way to resolve conflict. It encourages the social forces which started the violence in the first place, and usually penalises those who are most needed to make a non-violent society work: people who can see both sides of a question, who are prepared to tell the truth even if it hurts their "own" side, and who do not believe that the best way to safeguard one ethnic community is to kill or drive out members of the other.

That raises another question. Should displaced people be helped back to their original homes, even if that means using force against the people who displaced them? Or is it better to let people stay where they have fled to safety among their own kind?

The latter approach should minimise points of friction, but it also ratifies the gains achieved by aggression and "ethnic cleansing", leaving behind a sense of burning injustice which may fuel the next war.

All too often, measures taken for short-term peace and stability run counter to the long-term requirements of a peaceful and orderly society. What is most needed in the long term is an impartial police force and judiciary, in which all citizens have confidence whatever their ethnic or political affiliation. But that takes a generation at least to build. How many intervening powers are willing to stick around that long?

Even the imposition of peace and order itself may sometimes freeze, and so keep in being, a conflict which would otherwise be resolved by one side's victory, or by a stalemate obliging different parties to recognise and deal with each other.

Already, the very notion of "peace-keeping" seems an anachronism, an illusion of the early 1990s. But the new science of "peace-building" is still in its infancy.

Quick fix: Italian troops keep the peace for now in Albania

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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UK's Labour government must be more liberal on citizenship

From Sir Hugh Cortazzi.

Sir, As a former deputy under-secretary in the Foreign and Commonwealth Office who had some responsibility in the late 1970s for advising ministers about our remaining dependent territories, I wholeheartedly commend your leader "For those left behind" (June 30). You are quite right in describing the legislation passed in 1981 as "shameful".

The attitude adopted under the illiberal regime of Mr Michael Howard at the Home Office towards stateless persons (largely from the sub-continent) in Hong Kong was morally wrong and was only overturned after a hard fight by the governor. Our stinginess in granting passports and rights to settle here to residents of Hong Kong is a blot on our record as a colonial power.

I agree that Foreign Office minister Lady Symons' arguments against granting citizenship to the remaining inhabitants of British territories are specious and unconvincing. It behoves a Labour government to be more liberal and generous than its illiberal predecessors and to right the wrongs inflicted on those people by granting them citizenship.

St Helena does not even have an airport: its citizens should be allowed to come here and work without having to apply for a work permit under our restrictive and bureaucratic procedures.

Hugh Cortazzi,
16 Hamilton Close,
London NW8 8QY, UK

Trade not restricted by labelling

From Mr Martin J. Frid.

Sir, US agriculture secretary Dan Glickman has no business telling European consumers that the EU proposal to label genetically modified products is "unacceptable" ("Genetic products row worsens", June 20). In no way does labelling restrict trade. US farmers are welcome to sell healthy products to Europe.

Is Mr Glickman not familiar with identity preserved grains? Segregation between genetically modified and normal grain is not impossible, as the Americans have claimed, but a way to insure high quality and satisfy the specific wishes of European and Japanese consumers.

The issue here is clearly one of certain leading chemical companies trying to protect their rather misguided investments in genetic engineering. World trade would be better served if companies such as Monsanto cleaned up in their own back yard instead of disrupting soy bean supply for the international food industry.

Martin J. Frid,
Kvarngatan 8,
283 35 Osby, Sweden

Disastrous consequences of ruling

From Mr Edwin Laurent.

Sir, The African, Caribbean and Pacific (ACP) group of countries will next week be joining the EU in seeking to overturn the initial ruling of the World Trade Organisation panel which went against the banana regime. Mrs Glenys Kinnock and the EU parliamentarians who during May studied the situation in the Caribbean recognised the disastrous and unacceptable consequences for the entire region if the ruling were ever to be implemented.

This higher price the banana regime permits our farmers has enabled the Caribbean to retain a place in the EU market. Their production costs are inevitably higher than Latin America's, due to the difficult terrain, smaller size farms, perennial climatic hazards and the absence of economies of scale.

Banana exports account for a large part of export earnings in Caribbean countries – up to 70 per cent in Dominica – but those benefiting from these arrangements have a share well below 10 per cent of the EU banana market and only 3 per cent of world trade.

Despite the assertion of Ambassador Alfredo Pinoargote (Letters, June 25), the EU banana licensing arrangements are not unfair to Ecuador – they have not reduced by a single tonne the volume of bananas imported from Latin America under the tariff quota, and have not prevented Ecuador from substantially increasing its exports to the EU.

The thousands of small farmers of the Windward Islands have no wish to penalise Ecuador or any other exporter, all they want is to preserve their modest share of the EU market.

Edwin Laurent,
ambassador,
permanent representation of Saint Lucia to WTO,
Rue des Aduatiques 100,
1040 Brussels,
Belgium

Sound roots of money illusion

From Mr S.K. Rao.

Sir, Robert Chote's "The reality of money illusion" (FT, June 30) is illuminating. It shows that *a moderate degree* of inflation can act as a lubricant in adjusting real wages to changing demand and productivity differentials.

The persistence of money illusion among consumers, however, may be rooted in a sounder reason: as relative prices change in any inflationary situation – and they change more markedly within limited ranges of inflation than when prices are stable – consumers can adjust their consumption baskets, preferring commodities whose relative prices have fallen.

Real incomes, therefore, do not have to be adjusted by the same proportion as inflation. A consumer who has received a 5 per cent income rise as a compensation for a 5 per cent inflation is thus better off than another who has got a 1 per cent rise in income as a compensation for a 1 per cent inflation.

Siripurapu K. Rao,
5 Maresfield Gardens,
London NW3 5SJ, UK

Not working

From Mr Toby Micklethwait.

Sir, Re your report "Liddell talks tough on pensions 'scandal'" (June 25), the compensation procedure is not working. Compensation should be paid if bad advice was given – or risk warnings were not given.

But these are matters of opinion. It is ridiculous to let insurance companies express opinions on their own work.

Toby Micklethwait,
Hamilton House,
Lyne,
Surrey KT16 0AN

It may be his first time...

...but it isn't ours

This Budget is a leap into the unknown for everyone. But there's no need to panic. Ernst & Young's expert advisers will be working through the night to bring our clients up-to-the-minute views and advice. Old taxes or new ones – we're here to help our clients minimise their costs.

To read our budget analysis and commentary, access our website: (http://www.ernsty.co.uk/tax/budget/budget96.html).

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Difficult reverse call

Richard Waters examines the policy bind that has gripped the US telecoms industry

It was, as the US's top telecommunications regulator put it, "unthinkable". How could a Congress that had ordained competition among telephone companies countenance a merger to recombine parts of the monopoly Bell system broken up 13 years ago?

The problem for US policymakers is that the alternative may be equally unthinkable. By helping to crush the merger of AT&T and SBC Communications, legislators and regulators may have closed off one of the most logical avenues to restructuring the $200bn industry.

The policy bind raises uncomfortable questions about the development of competition in some other US industries that have also been fragmented by regulation. These include finance, where the division between commercial and investment banking is now crumbling fast, and electricity, where a spate of mergers has broken out in anticipation of nationwide deregulation.

At the centre of the debate is a basic disagreement over the effect of such consolidation. An argument driving corporate combinations in a range of US industries is that mergers which bridge the regulatory divide, lower costs for consumers and improve service. But sceptics – apparently including the Federal Communications Commission which regulates the telecoms industry – seem to believe that such mergers are rather a means by which companies seek to head off competition. This is especially so, they say, in sectors that are still in the process of deregulation.

The failure of AT&T's plans could also have a bearing on the international competitiveness of the US telecoms industry, and on those foreign carriers, like British Telecommunications, which have their sights set on the US market.

A merger would have helped AT&T battle the "mega-enterprises [which are] forming around the globe – to date exclusively under the domination of foreign companies," Mr Robert Allen, the company's chairman, said last month.

If it had gone ahead, the merger with SBC would have produced pure cost savings of $9bn a year, according to Mr Dan Reingold, a telecoms analyst at Merrill Lynch.

AT&T's membership of the "mega-enterprise" club is open to question. After shedding its computer and manufacturing businesses, suffering defections from its international partnership and yielding ground at home to an onslaught from new long-distance competitors, the company looks far less of a force than it did even a year ago.

But, as one FCC staff member says, deliberately to promote the emergence of a national champion in telecoms by approving the proposed merger would "smack of industrial policy. And we don't do that".

At the heart of this conundrum is the artificial structure of the US telecoms industry, with its barriers between the Baby Bells that handle local calls and long-distance carriers such as AT&T. Congress said last year that these divisions, created by the break-up of the national Bell system in 1984, should be phased out, allowing long-distance and other companies to enter the $100bn local calling business. The trouble is, legislators gave little direction about how this should happen.

There are only three ways for a company like AT&T to get its hands on the switches, local loops and other pieces of infrastructure needed to compete at local level, says Mr Mike Riordan, chief economist at the FCC. It can buy them, build them or rent them from someone else.

> The failure of AT&T's plans could also have a bearing on the international competitiveness of the US telecoms industry

The option of buying a Baby Bell outright has effectively been ruled out by the Washington reaction to the SBC merger discussions. This came even though neither company has ever confirmed officially that the talks took place.

The other two options look far more difficult to achieve than they did a year ago. Building local telephone systems from scratch would be prohibitively expensive – a fact that was obscured somewhat by an earlier belief in Washington and on Wall Street that cable television companies, which already have wires running into two-thirds of US homes, would jump into the telecoms fray.

The retreat of the cable industry, which has been beset by its own problems, has served to highlight the lack of an alternative. A new AT&T wireless technology may eventually provide a way to bypass the wires that link millions of homes to the telephone system, but it is still years – and billions of dollars – away from reality.

The third option, of renting space on the existing networks, is also fraught with problems. It is now nearly a year since the FCC came up with regulations that would force the Baby Bells to sell network capacity at something approaching cost to their would-be competitors.

Undeterred, the Bells have mounted a rearguard action through the courts. An appeals court ruling on the issue is due imminently, though a referral to the Supreme Court will almost certainly continue the delay.

Against this background, AT&T's aborted plan to buy a Baby Bell has served to highlight some of the competitive realities that were already becoming apparent. One is that the six Baby Bells – soon to be five if a merger between Bell Atlantic and Nynex is completed – are in a strong position to defend their home turf. A jump in the share prices of the Baby Bells this year – which continued on Monday on news of the failed merger – stands in stark contrast to the lacklustre performance of AT&T.

The second is that AT&T will continue to be haunted by its history. The company may not be the force it once was, but it still carries about half all long-distance calls in the US. In a speech two weeks ago, Mr Reed Hundt, chairman of the FCC, said this made AT&T the leading natural competitor to each of the Baby Bells.

What he did not say was how a company with a stock market value of $55bn and annual cashflow of $9bn can possibly hope to fight against a pack of rivals with a combined capitalisation of about $250bn and cashflow exceeding $40bn.

Smaller long-distance companies do not seem to be caught in this trap. Implicit in Mr Hundt's speech, and more explicit in the private comments of some FCC staff members, is an understanding that a company like Sprint, the third-biggest long-distance carrier, might be swallowed by a Baby Bell without upsetting the competitive balance.

Ironically, AT&T's case would have been helped if it had countenanced a much faster drop in its market share – a paradox familiar to former monopolists the world over. While naturally wanting to protect their market share, such former monopolies can only truly enter the competitive world once they have been cut down to size.

The emerging global giants of the industry to which Mr Allen referred are likely to find that the block on AT&T would also bar them from buying a Baby Bell.

That is likely to be of little concern to Concert, the company due to be formed by the combination of MCI and British Telecom. MCI, after all, has set its sights on serving big businesses, not being a full-service national carrier for consumers.

The sight of AT&T assailed on all fronts by a group of entrenched regional companies could turn out to be the best such international mega-enterprises can hope for.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday July 2 1997

Pitfalls for the chancellor

Mr Gordon Brown, the UK chancellor, showed when he handed control of interest rates to the Bank of England that he was impatient to set a new direction for a long journey. However, his first Budget today will be the better if he moves at a cautious pace.

He needs to raise money, and to damp down economic growth. He has also promised longer term reforms of taxation to improve investment. He must at all costs avoid confusing these imperatives.

The two months since Labour's election victory have given Mr Brown insufficient time to make detailed plans for tax reform. Britain's tax system – both personal and corporate – abounds with complexities and pitfalls. It would be all too easy for a new chancellor to announce plausible-seeming measures which merely created perverse incentives and opportunities for tax avoidance.

After the reforms to corporate taxation in the 1984 and 1987 Budgets, further efforts to remove distortions need to be carefully crafted. The success of today's Budget should therefore be judged in the first instance by what it does *not* contain. Mr Brown has no doubt been sorely tempted to raise cash from pension funds and the corporate sector by phasing out the dividend tax credit. And he might like to dress this up as tax reform, especially if it were linked to a change in investment allowances.

The hard fact is, however, that eliminating the tax credit will harm pensions and raise the cost of capital to industry, while any attempt to tinker with investment allowances is doomed to be either ineffective or very expensive.

Revised assumptions

Yet Mr Brown does need to raise quite a lot of money. The revised assumptions for national accounts endorsed by the National Audit Office emphasise that the government deficit is much too high for an economy running at close to full capacity and growing faster than its sustainable rate.

The government says it wants to reduce the deficit to no more than the total of public sector investment over the cycle. This would imply borrowing of only about ¾ per cent of GDP, less than half the figure expected for this year. To meet this target, the chancellor needs to raise between £5bn and £10bn in extra annual revenue depending on how soon he wants to achieve fiscal virtue.

Consumer demand

Since the public finances are enjoying a fair wind from declining unemployment and increased tax revenues, the lower figure may be enough. However, the manner in which it is raised may prove more important than the amount, for it will be the clearest possible signal as to what Labour means in government by calling itself "new".

If he really intends to be responsive to the needs of the market economy, Mr Brown will meet excessive consumer demand by tax increases which hit consumers. He will make the increase large enough to reduce the upward pressure on interest rates and on sterling. And he will take the opportunity, as far as possible, to remove distortions – for example, by ending mortgage interest relief and the married couple's allowance. To raise further cash, he could conceivably increase the ceiling on National Insurance contributions or restrict personal allowances to the basic rate of tax.

Unpopular though such changes would be, they would at least avoid the legerdemain of corporate taxes which are presented as "painless". Abolishing dividend credits and the unjustified windfall tax on utilities have both been presented in this light. But neither would damp down domestic demand, and both would have undesirable side-effects.

It is still possible that the government has thought again on the dividend credit. On the windfall tax, the best that can be hoped is that Mr Brown will make it as fair as possible and promise he will never, never do it again.

US beef

The World Trade Organisation's dispute panel ruling against the EU's ban on imports of beef treated with synthetic hormones comes as no surprise. WTO rules require governments that impose trade restrictions on health and safety grounds to back their claims with scientific evidence. The EU has signally failed to do so.

The passions raised in this dispute go far beyond the relatively small potential trade flows. The US, backed by Canada, wants to set a precedent for future cases. US trade officials also wish to show Congress that trade agreements can work in the national interest.

The EU fears the further unsettling of consumer confidence, already shaken by the BSE scare. Banning imports of US beef is hard to justify on scientific grounds. Indeed, in 1995 a 10-year study, endorsed by the EU's own scientific advisers and funded by Brussels, found no evidence suggesting that using hormones to make calves grow leaner and faster posed health risks for humans.

Nevertheless, the European Commission says that – subject to member state confirmation – it intends to appeal. If the appeal fails, it then has three options: to lift the ban on hormone-treated beef; to maintain restrictions and compensate the US for lost trade, estimated at up to $250m by the US beef lobby; or to ignore the ruling, as has been urged by France. This would lead the WTO to sanction US retaliatory tariffs.

Internal political pressures may well lead the EU to choose the second or, worse still, the third option. But either would be a huge mistake. The EU has, rightly, made great play of the sanctity of the WTO disputes procedures in cases it has itself brought. For this reason, it must be seen to abide by the rules when cases go against it. Should it fail to do so, the moral authority of the WTO would be seriously undermined. If so, the EU would itself end up among the biggest losers.

E-commerce

Commerce on the internet needs no special regulation. It should not have taken a White House task force two years to reach that conclusion.

The need for such a study, and the long-drawn-out saga of pornography legislation, illustrates the sneaking hostility that governments feel towards a phenomenon which allows individuals to escape their reach.

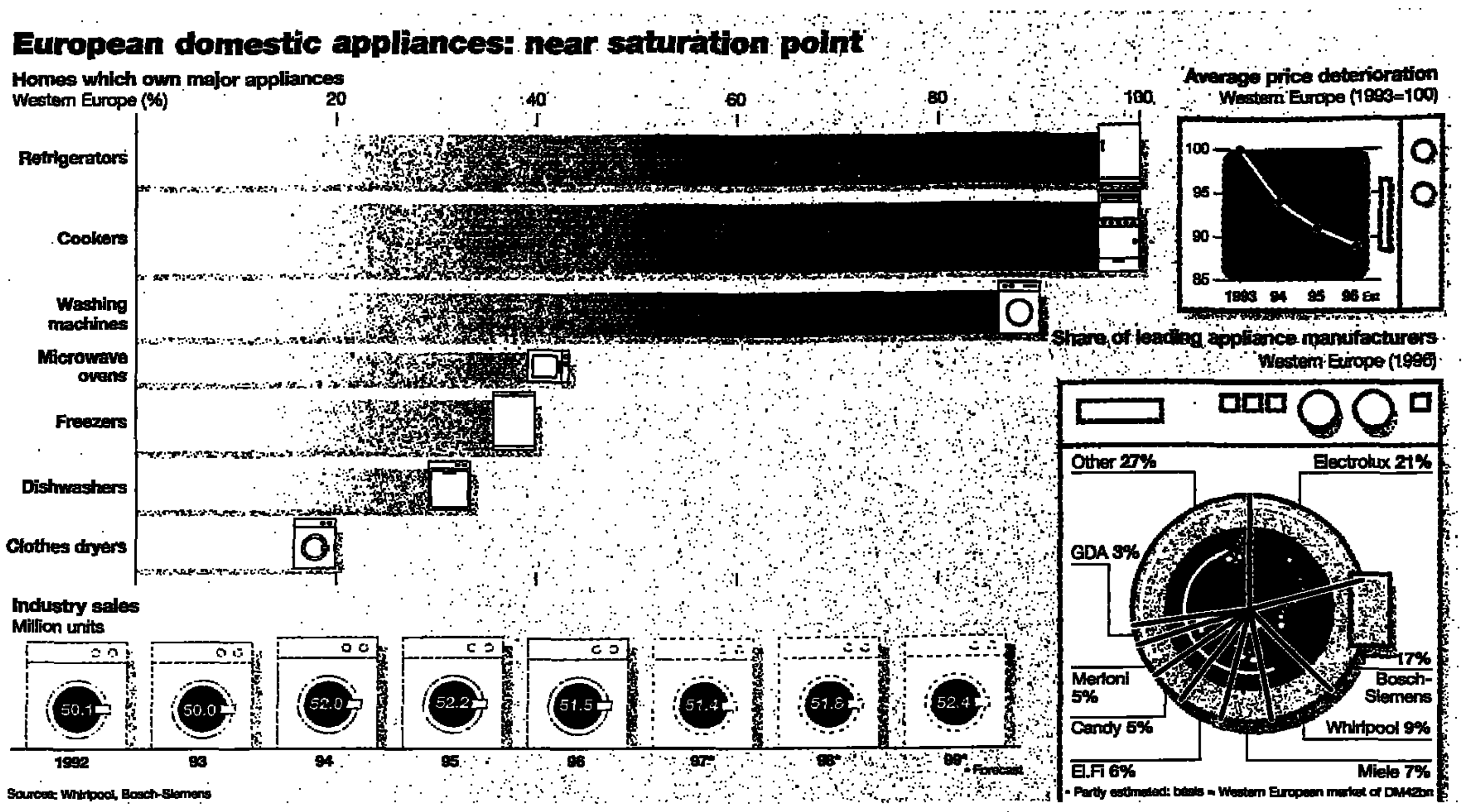
In this respect, the internet is not unique: satellite television, international telephone calls, credit cards, even cheap air transport all limit governments' ability to control their citizens.

None of these is lawless, however. Nor, for most purposes, is the internet. Fraud over the net is, if anything, less anonymous than it is through telephone cold-calling. The normal processes of law enforcement and cross-border judicial collaboration are as well or ill-equipped to combat internet wrongdoing as any other sort.

Crime is, in any case, a side-issue. Much more important is the role the internet can play in accelerating international trade, and lowering barriers to entry for smaller, geographically remote, competitors. Here, as the White House study recognises, governments can best help not by making new laws but by updating traditional ones, such as those covering contracts and copyrights.

This requires international co-operation. Perhaps the most encouraging aspect of the US position is the recognition that though the net's roots are in the the US, it is now a global phenomenon. The weakest part of the study, indeed, is the one where that principle is neglected: the issue of encryption. By treating this essential technology as a military secret, the US is annoying its allies while gaining few practical benefits.

If the US administration is serious about playing the leading role in encouraging global electronic commerce, it will have to address the arguments over encryption with a more open mind.



Rough and tumble industry

Domestic appliance groups are adopting varied tactics to boost market share in Europe's stagnant market, says Peter Marsh

From his hillside office overlooking Lake Varese in northern Italy, Mr Jeff Fettig is trying to make the most of a $3bn gamble. That is the amount Whirlpool, the US's biggest domestic appliance company of which Mr Fettig is European president, has committed since 1989 to build up its position in the continent.

Since Whirlpool started its drive it has spent $2bn, which includes the costs of acquiring the domestic appliance division of Philips of the Netherlands between 1989 and 1991. It plans to invest a further $1bn in the next five years in product development, factory renovation and marketing.

But for all this outlay, Whirlpool's European sales have risen by only 13 per cent since 1990. Its European operation actually slipped into loss last year in the face of the most difficult times for the European white goods sector for decades.

Europe's makers of refrigerators, cookers, washing machines and other domestic appliances are battling in a sector that has declined in sales value for five consecutive years. The industry is plagued by overcapacity and is being forced to adapt to the needs of increasingly cost-conscious consumers. Professor Joseph Bower of Harvard Business School describes the fight for market share within the industry as a "bloodbath".

Blood has already been spilled at Electrolux of Sweden, which recently announced plans to cut 12,000 jobs and close 25 factories over the next five years, most of which will probably be in Europe. Electrolux, which vies with Whirlpool as the world's number one domestic appliance manufacture, is market leader in Europe. But Mr MatsOla Palm, vice-president for Europe, predicts that this year European sales volumes will fall by up to 2 per cent from last year.

While some companies are pulling in their horns, others are taking a more aggressive approach in spite of the inauspicious environment. General Electric of the US, the world's largest company by market capitalisation and the fourth-biggest maker of domestic appliances worldwide, is setting out to double sales in Europe over the next three years. It intends to bring out a range of new products, some of them based on US designs, and will buy appliances from independent companies, which it will sell on under its own name.

In spite of the expected downturn in sales this year, most of the big European manufacturers agree that future returns are rosy enough to justify hanging on. There are still savings to be made through rationalising production and marketing costs. More than 170 factories based in Europe turn out about 200 brands of domestic appliances. Many analysts say the sector could manage with half this number.

Seven companies – Electrolux, Bosch-Siemens and Miele of Germany, Whirlpool and the Italian groups Elfi, Candy and Merloni – account for 70 per cent of sales. There are dozens of smaller "niche" producers, including Fagor of Spain and Liebherr of Switzerland. Relative newcomers from Asia include Daewoo of South Korea and Malaysia's Sime Darby, which are trying to build up sales from a small base.

In the longer term, there may be rich rewards for the most successful companies in tapping what is expected to be a surge in demand for domestic appliances from consumers in the former communist eastern bloc. Whirlpool and Bosch-Siemens have been among those stepping up marketing efforts in the region, although sales so far have been disappointing.

Until sales pick up in eastern Europe, manufacturers – in common with many companies operating in mature markets – will have to battle against slow growth and increasing competition. "It is a war of attrition," says Mr David Newkirk, a consultant at Booz-Allen & Hamilton. "There are no bold strokes to pull off."

Since 1992, sales volumes of household appliances in western Europe have grown by an average of just 1.2 per cent a year, to 51m units last year – worth about $27bn at factory prices. But because of a 10 per cent drop in prices between 1993 and 1996 – caused by consumers pressing harder for value for money against a background of weak economic growth – revenue has been shrinking. This year, profit margins are likely to drop even further from the already meagre 2 per cent of sales in 1996.

Further cost pressures have resulted from changes at the distribution end of the industry. The number of retail outlets across Europe has shrunk, giving retailers more clout in dealing with manufacturers.

Even in a stagnant market with declining profit margins, it is possible to increase revenue through innovation, says Mr James Dyson, the British entrepreneur behind the Dyson vacuum cleaner. This device, which claims to gather more dust than its competitors, has shot to annual sales of $150m four years after its launch. Mr Dyson, who accuses his rivals of failing to innovate, is studying ways to improve other domestic appliances, such as washing machines, which he hopes will help him achieve yet higher sales.

But many of his bigger rivals are trying to boost sales through innovation. Even in a sector where technological advances are likely to be incremental – compared with, say, consumer electronics, which comes out with entirely new products every few years – the smallest innovations are seized upon by companies to promote their products.

"This is not a commodity business in which all washing machines are equal," says Mr Silvano Fumagalli, chief executive of Candy, a family-owned Italian company. In the early 1990s, Candy hit on a new way of feeding water through its dishwashers, which it says results in a more thorough wash. This had an impact in boosting sales, the company says.

Whirlpool has spent several years re-engineering its front-loading washing machines so that the holes for pushing clothes into the drum are a few centimetres wider than rivals – making the machines easier to use.

The industry has also embraced computer-aided design techniques to speed up development of products. A new washing machine can move from the ideas stage to the shops in just 2¼ years, twice as fast as only a few years ago.

Companies are also trying to develop machines that use less energy and water in order to satisfy increasingly environment-conscious consumers. Bosch-Siemens says its dishwashers require 62 per cent less electricity and 34 per cent less water than in the 1960s – advances the company believes have helped in its marketing drive.

The industry has also borrowed ideas from the car business in developing "product platforms" – basic designs that can be customised to meet varying European consumer tastes.

A new washing machine "platform" – costing some $60m to develop – can be turned into as many as 400 individual products differentiated by features such as shape, colour, spin-speed and control systems. For an oven, the platform can be adapted to a variety of types to reflect different cooking styles – with Germans requiring space for roasting, the British keen on the grill pan and the Swedes wanting added devices for baking biscuits.

Technological and design innovation is backed up by marketing efforts to target specific groups of consumers with different brands. Merloni has promoted successfully what Mr Francesco Caio, its chief executive, calls the "cheap and cheerful" Indesit brand to cost-conscious consumers. It has kept its up-market Ariston label for customers for whom price is not the prime consideration.

In an effort to pare costs, many companies are trying to rationalise their manufacturing operations by using their network of factories more efficiently.

Hotpoint, the UK company owned jointly by GEC of Britain and General Electric, has boosted productivity by moving away from what it regarded as rigid and inefficient production lines. Instead it has grouped workers into small teams.

Bosch-Siemens has spent about $350m in recent years to automate its plants in Germany where labour costs are high. It has shifted much of its more labour-intensive production to countries such as Poland, the Czech Republic and Spain where wages are far lower.

"There are good opportunities for us to maintain progress in this sector if we get the strategy right," says Mr Herbert Wörner, Bosch-Siemens' chief executive.

"Sales have got to come back again," says Mr Garry Lamb, of GfK, which monitors the industry. "A washing machine or a fridge is something you can't do without."

Such encouraging predictions notwithstanding, Mr Fettig of Whirlpool does not underestimate the difficulties ahead. Whirlpool, he says, is two-thirds the way through its "10-year vision" to lift returns from Europe to what he calls "acceptable" levels. It will be some years yet before Mr Fettig knows whether Whirlpool's $3bn gamble has come off.

· OBSERVER ·

Invitation to advance

■ Laloo Prasad Yadav, the embattled chief minister of Bihar in northern India, isn't doing too well in wooing foreign investors to his poor, rural state.

"Give me Bihar for a week and I'll turn it into another Japan," a Japanese industrialist recently told Yadav, whose inept policies have contributed to the state being the least developed in India. The chief minister replied: "Give me Japan for a week and I will turn it into Bihar."

Yadav's under intense pressure to leave public life after being charged with conspiracy in a $280m scandal involving the diversion of public funds. Tomorrow he could be deposed as president of Janata Dal – the party of prime minister I.K. Gujral and the largest in the ruling United Front Coalition. He's refusing to go quietly, though some sort of deal may be stitched up before the voting starts. Meantime, he's causing acute embarrassment to the prime minister, as well as potential investors.

Obedient servant

■ There wasn't a stampede for the governorship of the Bulgarian national bank after prime minister Ivan Kostov showed the old guard the door. Now that the Bulgarian currency is pegged firmly to the D-Mark and the money supply is limited to the level of foreign exchange reserves, the central bank boss can't test his skill at managing exchange rates and monetary policy.

After three senior economists turned the job down, Kostov, a former finance minister, turned in desperation to Svetoslav Gavriiski, a finance ministry official for 25 years.

Soft-spoken Gavriiski, who helped negotiate Bulgaria's foreign debt rescheduling a couple of years ago, was finance minister in a caretaker government this year and might have expected to hang on to the top slot. But, like a model civil servant, he obligingly moved down the road to the BNB.

At least, he gets a plusher office in the ornate, pre-communist central bank than anything available at the Stalinist-era finance ministry, where ornately carved chairs and antique tapestries are in short supply.

Rocky road

■ Brazil's transport minister Eliseu Padilha is doing a lot of explaining this week. Top of his busy schedule is a meeting with groups representing the country's black population – he's got to do some fast talking to stave off threatened lawsuits.

Padilha's only been in the government a couple of months. He got the job after months of wrangling mainly because he'd managed not to offend anyone, but he's catching up fast. Attempting a rhetorical flourish in a speech, he dropped a clanger of earth-moving proportions. "In Brazil there are two blacks who are admired by everyone," he said. "One is Pelé [the former footballer], our king for ever. The other king is asphalt. Everybody loves asphalt. It is the black that everyone loves."

It's fortunate for Padilha that Pelé, now Brazil's sports minister, said he hadn't taken offence at being considered equivalent to a petroleum derivative used to make roads. But the erring minister has to explain himself to Brazil's 70m or so black or coloured people. He says he's ready to face his critics, and apparently believes his trump card is that he's of mixed European and African origin himself. Let's hope he doesn't try any more oratorical embroidery.

Red banners

■ If anyone was going to make a profit from Hong Kong's return to the Motherland, surely it should have been the Shanghai Flag and Tentworks, which toiled for months to provide an extra 800,000 national flags. Some now flutter over Hong Kong, others were snapped up in the frenzy of flag-waving patriotism on the mainland.

Vice-director Zheng Deling is a proud man. "When they hoist our flags over Hong Kong, we shall take pride that we have made our contribution to Hong Kong's return," he says.

But pride will have to be its own reward. The state-owned company has dutifully shouldered the burden of the extra production and new design for the Hong Kong flags. "Profits have fallen a little this year," admits Zheng. "Making the new flags took time and money." Is this what China means by "one country, two systems" – taking from its state sector to feed Hong Kong's free market?

Fool's gold

■ The sun didn't just set on the British empire with the handover of Hong Kong, it also set on British opposition Conservative party leader William Hague's liquidity. Offering his Midland Bank gold card to pay his bill at the plush Mandarin Hotel, he was told politely that it had expired at midnight on June 30, just as the Union Flag was being lowered.

The Financial Times

100 years ago

The Rhodesia Crisis
It seems that the Prospectors' Association in Rhodesia has appealed to the Chartered Company to warn intending immigrants not to start for Mashonaland. One gentleman who was very indignant with the Prospectors' Association, exclaimed: "Let us get people into the country, and then agitate." The great mistake appears to have been to under-estimate the strength and persistency of native animosity, and subsequently to over-estimate the protestations of native repentance. The childlike innocence of the Mashonas has since proved to be a pretence.

50 years ago

The Crisis In France
In the big cities, bread and flour are not the only food problems. Butter, cheese, meat and wine are all scarce – that is if one attempts to buy them at official prices. On the black market they are available, but usually at prices which are quite beyond the purchasing power of the average working man. The black market still remains food problem number one. Since the liberation, a succession of food ministers has failed to suppress it, and have been dismissed one after another for their pains.

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FINANCIAL TIMES

Wednesday July 2 1997

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HK's new leader pledges to uphold social freedoms

Tung lists homes and education as priorities

By John Ridding and Peter Montagnon in Hong Kong

Mr Tung Chee-hwa, Hong Kong's post-colonial leader, yesterday signalled his intention to get down to business quickly by outlining plans to safeguard the region's economic competitiveness.

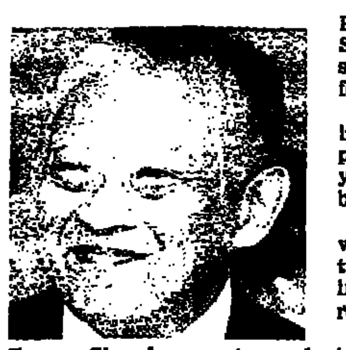
In his inaugural address, made within hours of the handover, Mr Tung said his policy priorities would be education and housing.

He also pledged to uphold social freedoms and maintain the rule of law.

His speech appeared designed to appeal to the public as well as address the concerns of the business community, which sees rising costs as the biggest challenge for Hong Kong.

Both Britain and China yesterday welcomed the smooth handover, which they said would underpin improved relations. Mr Robin Cook, the British foreign secretary, spoke of a more constructive relationship with Beijing and said the handover ceremony had been managed with "decorum and dignity".

In Beijing, China's leaders signalled that they would step up efforts to secure reunification with Taiwan. Mr Li Peng, the prime minister, said on his return from Hong Kong that the "one country, two systems" model "works for Hong Kong and Macao [and] it can also work for Taiwan".



Tung Chee-hwa: stressed importance of Chinese values

Mr Tung promised "resolute action" against real estate speculation. "We face keen competition in trade and services, and our competitiveness is threatened by persistently high inflation. Rampant speculation in the property market in recent months has seriously affected our competitiveness and people's livelihood."

His warning sent shares in Hong Kong property companies lower on international stock markets, with Henderson Land falling in Tokyo, and Hongkong Land slipping in Singapore. The Hong Kong stock market remained closed for a handover public holiday.

Mr Tung promised to increase overall housing supply by at least 85,000 flats a year, far higher than the 30,000 brought to the market in 1996.

The inadequate supply would be eased by an acceleration of reclamation projects, improved infrastructure and reduced red-tape.

Mr Tung outlined plans to improve the standard of education in the territory, including the extension of full-day schooling to all primary schools. Although he did not address the question of funding, he has previously rejected any change to the territory's low-tax regime. Hong Kong has a large budget surplus and fiscal reserves, equivalent to more than US$40bn.

Mr Tung also outlined plans for welfare schemes and underlined the importance of Chinese values in Hong Kong.

● Several thousand pro-democracy activists took to the streets of Hong Kong yesterday. The protest passed off peacefully.

Education and housing, Page 4
Observer, Page 18
Barry Riley, Page 15

West fails to reach deal with India on imports

By Khozem Merchant in New Delhi

India refused to agree yesterday to the rapid lifting of import controls, precipitating a collapse in negotiations with its western trading partners.

Both sides refused to give ground, and developed countries will almost certainly refer the matter to the World Trade Organisation's disputes panel.

"No consensus was reached," said a WTO official, adding that this was regrettable. "There was a divergence on interpretation of the balance of payments situation." One official said the US was "fed up" with the talks, which have dragged on for nearly 18 months, and would now be "seeking consultations".

A WTO panel would almost certainly rule against India, largely because of the country's rising foreign exchange reserves and healthy balance of payments which, according to the International Monetary Fund, would help the country withstand an influx of cheap foreign goods. Import controls on consumer goods have protected India's domestic industry for nearly 50 years.

WTO officials said India's progress has been watched very carefully by China, which faces similar trade negotiations soon. This complicated proceedings as western countries feared setting unhealthy precedents, said an official.

India has come under intense pressure to dismantle tariffs and accelerate its integration into the global economy. Its last offer was to remove controls on 2,700 items in three stages over seven years. The US, Australia, New Zealand and the European Union, India's main trading partners, insisted on a two or three-year phase-in period.

India controversially insisted on removing controls on the most sensitive goods, such as food grains and wheat, only in the final year. However, it placed the least controversial goods, such as some types of metals, paper and woods in the early years of the phase-out, annoying western countries.

Nevertheless, India has secured the support of Brazil, Cuba and the countries of the Association of South-East Asian Nations, which groups the powerful tiger economies that include Malaysia, Thailand, Singapore and Indonesia.

Officials in Geneva said India argued forcefully and "emotionally" that "western countries should encourage liberalisation but they must understand [India's] political difficulties". This referred to India's weak government, that contains strong factions representing agrarian interests.

Eurotunnel extension

Continued from Page 1

but I am concerned we get an integrated transport policy."

Eurotunnel said the joint government statement was "a good step forward". It expected the proposal for a profit-sharing deal, which would take effect in 2052, would involve an equal sharing of pre-tax profits between the company and the governments. The company said it would be happy to discuss ways of increasing rail freight.

The provisional deal follows intensive lobbying by Eurotunnel and shareholder groups since late 1995 when the company announced a standstill on the payment of its junior debt with 225 creditor banks. At one stage the company was seeking a 999-year concession.

The governments' announcement came on the eve of a meeting today of the 3,000-strong Association of Eurotunnel Shareholders to determine its voting position on the restructuring plan. Mr Christian Cambier, its president, said: "We will support the plan now. Our meeting will only last 15 minutes. If we have got to this point, it is thanks to me."

Eurotunnel was originally granted a 55-year concession in 1987, which was increased to 65 years in 1993.

Japanese cancer drug toll hits 94

By Gwen Robinson in Tokyo and Daniel Green in London

At least 94 Japanese cancer patients have died from the side-effects of a popular cancer treatment after the Japanese health ministry underplayed the drug's risks.

The revelation has embroiled the ministry in further scandal – on top of its alleged failure to halt distribution of HIV-tainted blood products in the 1980s – and has sparked fury over unethical practices in Japan's drugs industry.

Dr Masanori Fukushima, head of the Aichi Cancer Centre in Nagoya, western Japan, said yesterday that health ministry data indicated at least 94 patients had died from the side-effects of irinotecan hydrochloride, a treatment for lung and cervical cancer. The total was likely to grow.

At least 5,000 cancer patients have been injected with irinotecan, marketed under the name Topotecin by Daiichi, and as Campto by Yakult.

The drug is marketed in Europe as Camto by Rhône-Poulenc Rorer and in the US by Pharmacia & Upjohn as Camptosar.

Western drug companies regard the Japanese market as more prone than their own to concerns over side-effects. Irinotecan's use in most markets outside Japan is limited to the treatment of cancer of the colon, and has not been linked to unusually high death rates.

Dr Fukushima's public warnings last week forced an admission from the drug's two makers in Japan, Daiichi Pharmaceutical and Yakult Honsha, that 39 deaths had resulted from its side-effects. Yesterday they acknowledged that the figure of 94 fatalities was correct.

In late 1995, 18 months after the drug's commercial launch, the ministry only admitted that nine people had died from side-effects, which include damage to blood cells. At the time, however, it knew at least 55 people had died out of 1,000 given it in clinical tests, according to Dr Fukushima.

A health ministry spokesman acknowledged that the high number of deaths from irinotecan had not been publicised, but said the ministry had warned about its side-effects since its launch, and would soon warn doctors and hospitals "to be more careful about administering the drug".

THE LEX COLUMN

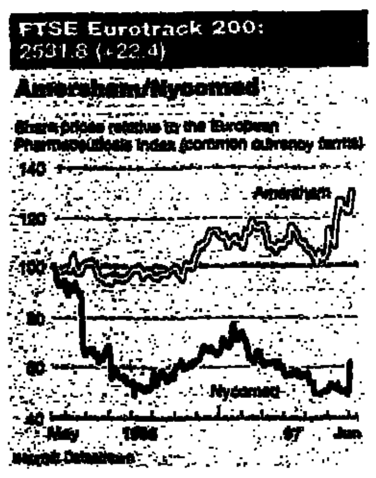
Sharper image

It does not take X-ray vision to spot the commercial sense in Amersham International's merger with Norway's Nycomed. The enlarged group will be the world's largest supplier of diagnostic imaging agents – which enhance X-rays and medical scans – with 30 per cent of a £3bn ($5bn) market. The fit, in products, technology and geography, is excellent. And the group is promising annual cost savings of £40m within three years. Amersham's timing looks impeccable. Its shares have jumped a fifth since it announced a merger with the biotech division of Pharmacia & Upjohn three weeks ago, while Nycomed's have been woeful performers. As a result, Amersham's shareholders will get 60 per cent of the new group, although their company is contributing less than 40 per cent of the profits. At yesterday's prices, Amersham is valued at around 19 times forecast 1997 earnings and Nycomed only 14 times.

That does not mean it is a bad deal for the Norwegians. Relief that Nycomed has found another partner, two years after its failed merger attempt with Ivax of the US and despite a poor record since, sent the shares up 23 per cent yesterday. In the circumstances, its management has done well to secure an equal share of board seats – though the new chief executive, Mr Bill Castell, comes from Amersham. Critically, Nycomed has also obtained prior approval from its large shareholders, who torpedoed the Ivax merger two years ago.

Given that failure, the troubles at Pharmacia & Upjohn, and two big deals in one month at Amersham, Mr Castell will have to demonstrate a tight grip on this cross-border marriage. Investors will also want reassurance that price pressure in US contrast media, the source of Nycomed's problems, is stabilising. And the potential of Nycomed's new ultrasound technology is still unclear. But a rating of 16 times estimated 1998 earnings does not look expensive for a rapidly growing healthcare company.

FTSE Eurotrack 200:
2531.8 (+22.4)



US markets

Is the US witnessing the triumph of capitalism and the end of the business cycle? Or are the old patterns about to reassert themselves? Ask equity and bond investors and you get two different answers. US share prices have risen by around 20 per cent this year. Bonds, by contrast, have struggled to make any progress at all despite a benign conjuncture including falling inflation, subdued commodity prices and a shrinking budget deficit.

The paradox is partly explained by upgrades to profit forecasts following strong first quarter growth. This made share valuations look less stretched. But it cannot disguise the tension between the comforting trend in current data and fear of setbacks which may lie ahead. Equities are focused firmly on the present. Confidence is bolstered by the belief that a process of perpetual cost-cutting will protect corporate profits from rising wage costs. Bonds, however, believe that the combination of tight labour markets and buoyant consumer confidence can only spell rising inflation and interest rates.

Both markets look vulnerable. The odds still favour a further 50 basis points rise in US interest rates by early next year – hardly a compelling scenario for bonds. For equities, the outlook is arguably worse. Not only will rising bond yields undermine equity values, but there is the added risk of nasty earnings shocks as sub-5 per cent unemployment eventually translates into a larger slice of the pie for labour.

C&W/Optus

An important strategic theme of Cable and Wireless under Mr Dick Brown, its relatively new chief executive, has been to "dig deep" in select telecommunications markets. That was the idea of combining Britain's Mercury Communications with three cable companies, now christened Cable and Wireless Communications (CWC). That, too, is why it is taking control of Optus – the Australian equivalent of CWC. With a few chunky operations rather than a string of small stakes in businesses spread around the globe, C&W will look less like an investment trust. There are also operational benefits in taking control at Optus. Until now, the group has suffered from having three equal shareholders with divergent interests. One symptom of the consequent drift has been a revolving door in the boardroom, with three chief executives in 18 months.

Optus still faces an uphill struggle competing against Telstra, the state-owned former monopoly. Not only can Telstra be expected to improve its telecoms service once it is privatised but its Foxtel joint venture with Mr Rupert Murdoch's News Corporation is a formidable rival to Optus Vision in the pay-television market. The competitive climate is especially difficult because Australia does not award monopoly franchises for cable. Optus and Foxtel are competing for the same programming rights and customers. If a peace treaty between the two groups materialises, the outlook will be much better. But the history of bitter pay-TV battles elsewhere suggests this could be a long drawn-out contest.

C&W has yet to demonstrate that its initial investment in Australia is creating value. Using yesterday's transaction as a valuation benchmark, the annual return so far is 11 per cent – adequate but nothing to crow about. Meanwhile, the long-cherished aim of crystallising Optus's value through a flotation has been delayed yet again, perhaps until 2000.

UK equities

Let us hope the market rumour – that Labour has abandoned plans to cut the tax credit on dividends in today's Budget – is well-founded. Yesterday's sharp rise in equities would then be validated. If Labour instead imposed taxes on consumers, there would be an extra benefit, as there would be less need to raise interest rates sharply to head off inflation. But if the rumour proves untrue, the disappointment could be severe. With profit forecasts being cut because of sterling's strength and further interest rate increases on the way, even rampant bid speculation may be insufficient to sustain current valuations.

See additional Lex comment on Royal Mail, Page 19

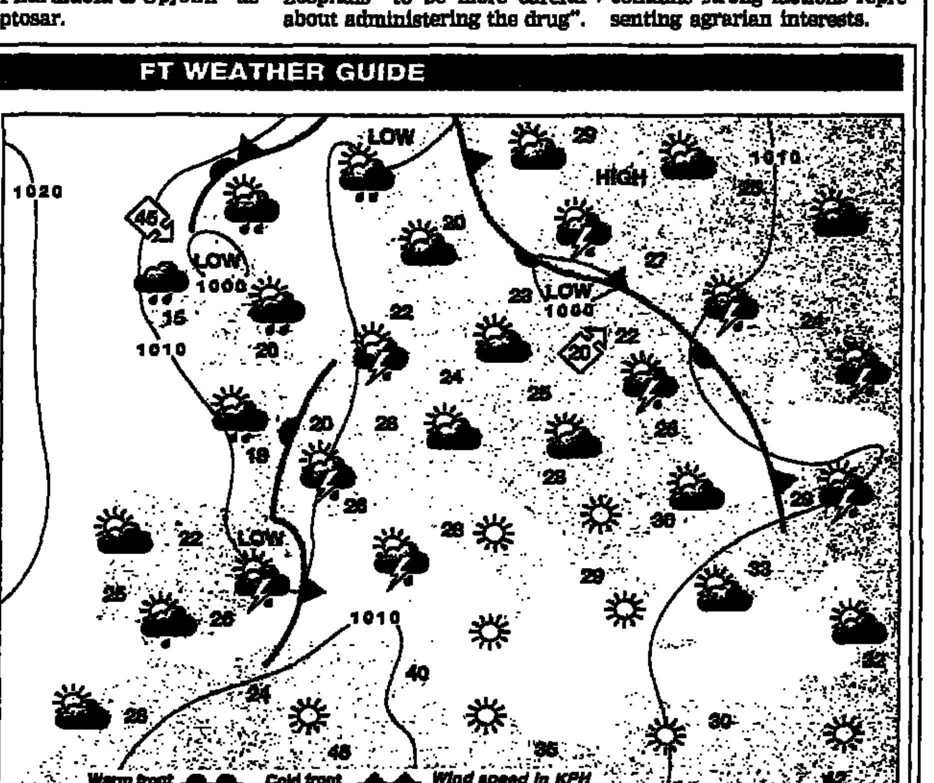
FT WEATHER GUIDE

Europe today

It is expected to be very wet over north-western Europe.
Steady rain is expected over most of the UK. The Benelux and France will have thunder showers.
The Iberian peninsula will have a mixture of sun and cloud, and north-eastern Spain will have some thunder showers. There will be scattered showers in the interior of Spain.
The Alps will have rain and thunder showers. Italy will stay mainly dry, and there will be sunshine over southern Italy.
The northern Balkans will be partly cloudy, and the southern Balkans will have plenty of sunshine.
Southern Turkey will be sunny.

Five-day forecast

During the next few days, conditions over north-western Europe will remain changeable as low pressure stays in the area.
Cloud, rain and showers will also continue over Scandinavia.
It will be sunny over south-eastern Europe.

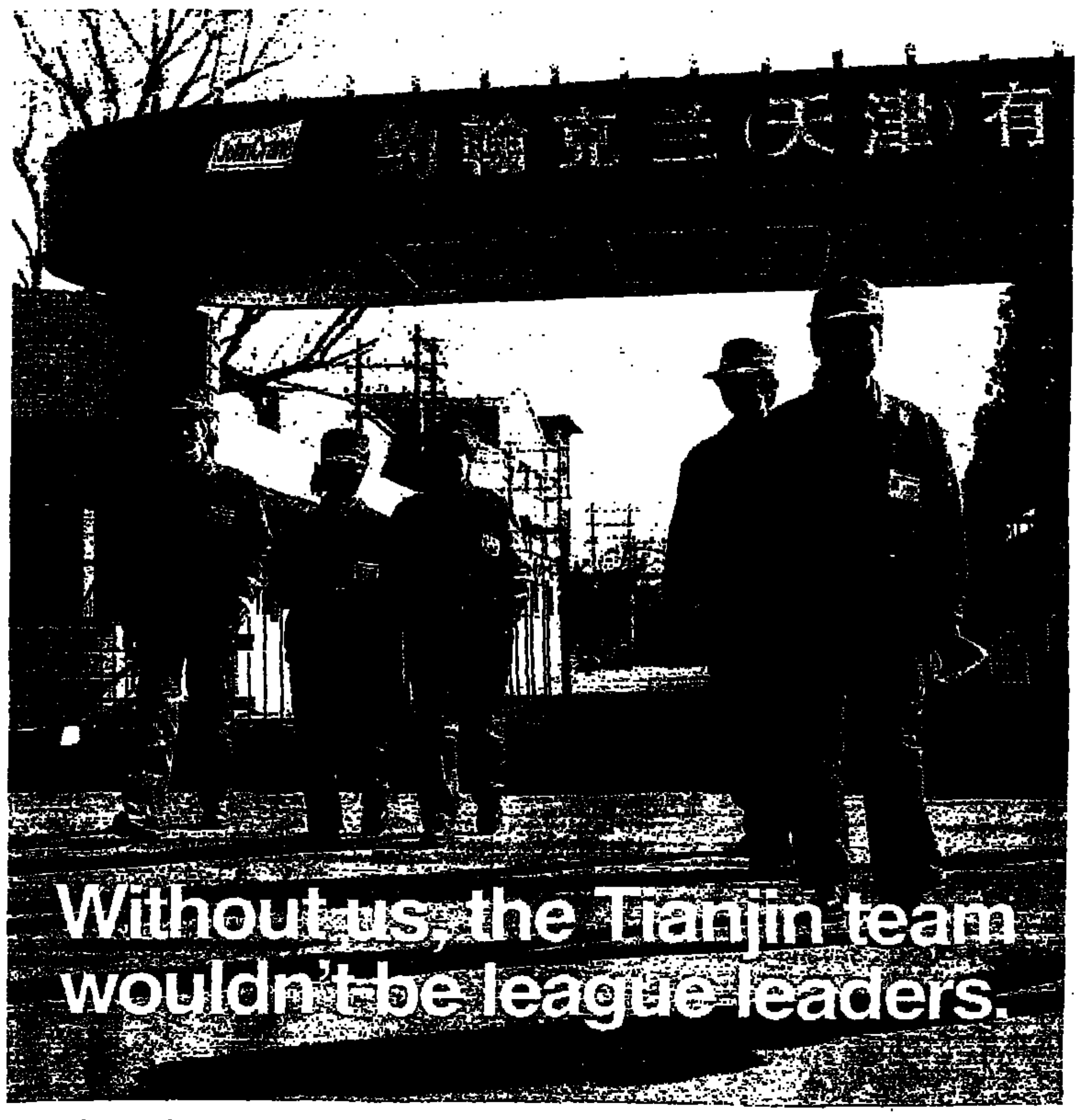


Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	Beijing	fair 34	Caracas	fair 31	Faro	fair 25	Madrid	shower 22	Rangoon	rain 29
		Belfast	rain 15	Cardiff	rain 15	Frankfurt	fair 24	Majorca	thund 27	Reykjavik	cloudy 13
Abu Dhabi	sun 40	Belgrade	cloudy 27	Casablanca	cloudy 24	Geneva	thund 23	Malta	sun 30	Rio	fair 25
Accra	thund 29	Berlin	fair 24	Chicago	shower 29	Gibraltar	fair 25	Manchester	rain 14	Rome	sun 28
Algiers	sun 27	Bermuda	thund 27	Cologne	fair 22	Glasgow	rain 14	Manila	cloudy 34	S. Frsco	sun 21
Amsterdam	shower 19	Bogota	cloudy 20	Dakar	fair 30	Hamburg	fair 22	Melbourne	fair 14	Seoul	fair 32
Athens	sun 33	Bombay	shower 33	Dallas	sun 37	Helsinki	fair 26	Mexico City	cloudy 27	Singapore	thund 31
Atlanta	sun 34	Brussels	shower 19	Delhi	fair 35	Hong Kong	rain 31	Miami	fair 33	Stockholm	cloudy 26
B. Aires	fair 12	Budapest	fair 25	Dubai	sun 40	Honolulu	fair 31	Milan	shower 23	Strasbourg	thund 23
B.ham	rain 15	C.hagen	cloudy 21	Dublin	rain 15	Istanbul	fair 29	Montreal	rain 27	Sydney	shower 14
Bangkok	rain 35	Cairo	sun 35	Dubrovnik	sun 27	Jakarta	fair 32	Moscow	cloudy 24	Tangier	fair 24
Barcelona	thund 23	Cape Town	fair 17	Edinburgh	rain 15	Jersey	fair 16	Munich	fair 24	Tel Aviv	sun 32
						Karachi	fair 35	Nairobi	cloudy 23	Tokyo	cloudy 28
						Kuwait	sun 46	Naples	sun 28	Toronto	thund 27
						L. Angeles	sun 25	Nassau	thund 33	Vancouver	fair 20
						Las Palmas	fair 26	New York	thund 26	Venice	fair 23
						Lima	cloudy 24	Nice	fair 24	Vienna	cloudy 26
						Lisbon	fair 21	Nicosia	fair 33	Warsaw	shower 22
						London	cloudy 19	Oslo	cloudy 22	Washington	thund 26
						Lux.bourg	shower 19	Paris	shower 19	Wellington	shower 11
						Lyon	shower 23	Perth	shower 18	Winnipeg	cloudy 17
						Madeira	fair 22	Prague	fair 24	Zurich	fair 22

We can't change the weather. But we can always take you where you want to go.
Lufthansa



In March 1996, John Crane doubled its 33% holding in its 1987 joint venture in Tianjin. Taking management control triggered vigorous action to create a new, more effective team to tackle China's £20 million market for mechanical seals.
Manpower was rationalised and senior staff retrained in Singapore. Capital investment brought new lapping machines and computers. The canteen, changing rooms and shower blocks were completely refurbished. New uniforms demonstrated team pride.
John Crane Tianjin raised sales 50% in 1996 and now exports to Europe, Asia and even to Japan.
As China's market leader in sealing systems, the Tianjin team today tops the league.
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Week 27

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IN BRIEF

Ambrosiano buys bank

The board of Banco Ambrosiano Veneto, the private Italian bank, has given the go-ahead for the L8,500bn ($5bn) acquisition of Cariplo, Italy's largest savings bank. The deal will lead to the privatisation of Cariplo, owned by a charitable foundation, and will create one of the country's biggest banking groups. Page 18

Spanish mobile operators raise prices
Spain's two competing domestic cellular phone business operators agreed to raise the price of mobile handsets by 50 per cent. The increase is the first for mobile clients since the cellular phone sector was deregulated in 1995 and a second operator, Airtel, began competing with Telefónica Moviles, the cellular unit of the dominant telecoms group, Telefónica. Page 18

Rothschild Swiss parent profits up 66%
Pre-tax profits at Rothschild Continuation Holdings, the Swiss parent company of the merchant banking group, increased by 66 per cent from SFr108m to SFr179m ($125m) in the year to March 31. Page 19

C&W strengthens Asia Pacific profile
Cable and Wireless, the UK-based telecommunications group, yesterday agreed to pay £445m ($734m) in cash to increase its stake in Optus Communications, Australia's second largest operator, to 49 per cent. The deal strengthens the group's position in the Asia Pacific region where it already has a majority holding in Hongkong Telecom. Page 19

Disagreement over BA alliance
Mrs Margaret Beckett, the UK trade and industry secretary, and Mr Karel Van Miert, the European competition commissioner, failed to settle longstanding disagreements about the controversial transatlantic alliance between British Airways and American Airlines. Page 19

Motorola out of D-Ram chips
Motorola plans to phase out production of dynamic random access memory (D-Ram) chips, the most widely used type of data storage, the US electronics group said. Page 16

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Hamborg Elekt	480	+	14.4
Linde	1360	+	25
Porsche	2530	+	210
Victoria Hld	1795	+	30
Falls			
BMW	1419	–	24
Holzmann	473	–	17
NEW YORK ($)			
Rises			
CNF Trans	35⅝	+	2⅝
Nycomed	17½	+	3⅛
Pierce Leahy	29¼	+	5⅛
Falls			
Excel Comm	26¼	–	2½
Office Depot	15⅝	–	3⅜
Plaza Inc	13⅛	–	2¼
LONDON (Pence)			
Rises			
Amersham Int	1682½	+	87½
Comm Union	661½	+	30
Glaxo Wicme	1311	+	71

Oxford Micr	304	+	20
Wessex Water	434	+	30½
Falls			
IOC Int	67½	–	60
PARIS (FFr)			
Rises			
Accor	915	+	35
Air Liquide	956	+	23
Alcatel	775	+	38
Canal Plus	1207	+	63
SGS-Thomson	499.8	+	35.8
Falls			
Imetal	762	–	17
TOKYO (Yen)			
Rises			
Mazda Motor	415	+	15
Falls			
Asahi Bank	932	–	43
Calyoda Corp	516	–	35
Hino Motors	692	–	38
Kikkoman	732	–	23
Nippon Sharyo	710	–	29

New York prices at 12.30pm. Toronto, Hong Kong and Bangkok closed.

Amersham International deal will create medical diagnostics leader

Nycomed agrees UK merger

By Daniel Green and Roger Taylor in London

Norway's Nycomed and Amersham International of the UK are to merge in a deal that creates one of the world's biggest medical diagnostics groups.

The company, Nycomed Amersham, will be based in the UK and led by Mr Bill Castell, Amersham's chief executive.

At last night's closing share prices, the combined group would have a market value of £2.1bn ($3.46bn) – of which £1.1bn is accounted for by Nycomed. Amersham shares rose 87¼p to £16.82¼p and Nycomed NKr34.5 to NKr 132.5.

The two have been in informal talks since 1993, but became serious only after Nycomed failed to merge with Ivax of the US last year. Nycomed investors blocked that deal, but were likely to back this one, said Mr Svein Aaser, Nycomed chief executive.

Both groups specialise in medical imaging. Nycomed sells chemicals that improve the quality of X-Ray images when injected, and Amersham has radioactive materials that can be used to produce images of the inside of the body.

Nycomed Amersham will have about 30 per cent of the £3bn a year imaging agent market, ahead of Italy's Bracco, Mallinkrodt of the US and Germany's Schering.

On 1996 figures, the combined entity would have annual sales of £1.46bn and operating profits of £244m, with Nycomed contributing more than Amersham.

Mr Castell said the company would grow by exploiting new imaging technologies, such as magnetic resonance and ultrasound.

There would also be about £40m in annual cost savings – about 350 jobs would be cut from a combined workforce of 11,600.

At Amersham's closing price the offer values each Nycomed share at £10.94 – a 23 per cent premium to the previous day's close. Amersham is offering 650 shares for every 1,000 of Nycomed's. To deal with Nycomed's non-voting stock, it will create its own class of non-voting shares and issue 650 for every 1000. It said it aimed to unify the two share classes.

In theory, Nycomed shareholders are getting 53 per cent of the joint company. But in practice, if Amersham buys in some Nycomed shares for cash as expected, they will be left with about 50 per cent.

Nycomed shareholders will also receive a special dividend of NKr5.62 a share to cover the last nine months' trading.

The company will be listed in London, New York, Oslo and Copenhagen, but headquartered in Amersham, Buckinghamshire.

Nycomed was advised by Goldman Sachs and Sundal Collier, and Amersham was advised by Morgan Stanley and Deutsche Morgan Grenfell.

Lex, Page 14

Stet to announce ties with AT&T and Unisource

By Paul Betts in Milan

Stet, the Italian telecommunications group due to be privatised in the autumn, will today announce in Rome its long-awaited strategic alliance with AT&T, the largest US telecommunications company.

The initial agreement is expected to involve a commercial partnership between the two groups, but could lead to a share exchange. AT&T may also become one of the core shareholders of Stet when it is privatised in October.

Stet is also expected to announce today a co-operation agreement with Unisource, the European alliance of smaller European carriers linked to AT&T. However, it is not expected to replace Telefónica of Spain in the Unisource consortium. Telefónica abandoned Unisource in April to join the Concert partnership between British Telecommunications and the US operator MCI.

Stet chairman Mr Guido Rossi has made a strategic alliance with a leading international telecommunications operator a priority since taking over at the beginning of the year. He said such a link-up was a vital part of the group's privatisation strategy.

Stet, which will be renamed Telecom Italia after its merger with the Telecom Italia operating company, has been anxious to expand its international activities to reduce its heavy dependence on the Italian market. Only about 9 per cent of Stet's annual revenues come from international operations, in spite of a series of recent foreign investments.

Stet has also sought an international partnership to reinforce its domestic position before the liberalisation of the Italian telecommunications market. Other international groups such as British Telecommunications, France Telecom and Deutsche Telekom are seeking Italian partners to compete once it is liberalised.

Stet has also been keen to see AT&T become one of the core shareholders of the privatised Telecom Italia, to reinforce the links between the two groups and to provide a "white knight" in the event of a hostile bid.

The agreement is also important for AT&T, which has suffered a number of recent setbacks including the collapse of merger talks with SBC Communications.

AT&T was seriously embarrassed by the defection of Telefónica to Concert, and its international strategy has been criticised by observers who have questioned whether its WorldPartners alliance, involving Japanese and Singaporean partners, has the strength to take on Concert and Global One, the alliance between Deutsche Telekom and France Telecom.

Stet faces Cuba suit, Page 16

Publishing rights to classic Motown songs by the Supremes, above, plus thousands of other soul music hits by stars such as Marvin Gaye and Stevie Wonder have been bought by EMI Group. The UK company has agreed terms with Motown founder Berry Gordy Report, Page 19

Viacom warns on profits

By Christopher Parkes in Los Angeles

Viacom, Mr Sumner Redstone's entertainment empire, yesterday issued its second profits warning this year and announced a charge of about $300m to help resolve troubles at its international Blockbuster video rental chain.

The US group's shares dipped 2 per cent on the news, which was preceded by gloomy reports to investors and a 17 per cent slide in Viacom's stock market value over the past two weeks.

Internal problems at Blockbuster, which led to the recent replacement of the chain's chief executive, have been compounded by sluggish demand and an estimated 8 per cent slide in store turnover.

Excluding the second-quarter charge, full-year cashflow, defined as earnings before tax, depreciation and amortisation, could fall as low as $400m, the company said yesterday. This compares with an estimated $700m in 1996.

Second-quarter earnings at this level were expected to be between $40m and $50m – about a third of last year's result – on revenues of $880m to $900m, it said.

The warning followed a first-quarter caution that because of "inferior" video releases and "short-term" problems with the transfer of Blockbuster's offices to Texas, cashflow would be up to 20 per cent lower than analysts' forecasts.

The $300m charge would cover the costs of reducing inventory in the US and closing "under-performing" stores in foreign markets.

Viacom said Mr John Antioco, Blockbuster's incoming chief executive, would refocus on video rental.

Nomura sharply down in eurobond league

By Gillian Tett in Tokyo

Nomura's global ranking in the eurobond league tables has fallen sharply since a corporate scandal at the group in March.

Nomura International, its London-based affiliate, fell to 15th place in the eurobond market between April and June, after ranking as the fifth largest underwriter in the first quarter.

The decline indicates that the scandal may have affected the group's international business. Several domestic clients in Japan have already defected.

The scandal centres on allegations that Nomura's Tokyo headquarters had financial links with "sokaiya", corporate racketeers who demand money in exchange for not disrupting meetings with shareholders.

Nomura yesterday denied any big defections. The scandal had some impact, but the overall effect was modest, it said. Nomura blamed the loss of market share on currency and interest rate turmoil. This, it said, damaged the appetite for bonds among Japanese investors. However, Daiwa, the second largest Japanese securities house in the yen eurobond market, increased business in this period.

IFR Securities Data, a market research group, said that in the first half of the year Nomura was the 10th largest underwriter in the overall eurobond market.

Nomura, Japan's largest securities company, has generally been between fifth and 10th position in recent years. The company underwrote $6.2bn worth of eurobonds in the first quarter. This fell to $3.1bn in the second quarter.

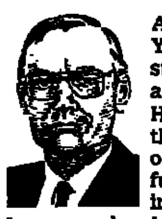
That pushed its market share down from more than 4 per cent to 2.4 per cent. Merrill Lynch, the US investment bank, was the largest underwriter.

In the yen eurobond market, Nomura's ranking fell from top position to seventh position in this period.

Nomura officials said revenues from the eurobond business represent only a modest fraction of the total profits from London.

Barry Riley

London fund managers and the end of empire



As the Royal Yacht Britannia steamed slowly away from Hong Kong in the early hours of yesterday, fund managers in London may have wondered whether they should also have lowered the flag on their Asian possessions. They have certainly shed a few tears.

London-based institutions started the year with three big overseas equity bets. They were notoriously underweight in US equities: UK pension funds, according to Caps, the performance measurement consultants, had only a 2 per cent exposure to Wall Street in an overall commitment to overseas equities of 21.2 per cent. With the US representing 52 per cent of the World ex-UK Index, a full proportional weighting would be 11 per cent.

The biggest compensating overweight position has been in continental Europe, where pension funds started 1997 with a 10 per cent exposure against a "neutral" 4 per cent. The Japanese weighting, in contrast, is reasonably close to neutral, at just over 3 per cent.

This leaves the third big bet: the Pacific Basin excluding Japan (essentially, south-east Asia and Australia). This region represents just 6 per cent of the World ex-UK index, nearly half of that being Hong Kong. That ought to boil down to just 1.3 per cent of a UK pension fund's portfolio. In fact, such funds have a weighting almost four times that size (more than twice their US exposure).

We can now calculate the results of these bets halfway through 1997. Overall, relative progress is poor. If they have matched the individual index movements, the funds will have underperformed the World ex-UK index in their overseas portfolios by some 3.6 per cent. True, this does not take account of stock selection, which has probably added value in Japan, but maybe not elsewhere.

> British institutions have long favoured south-east Asia as a source of exotic growth and glamour

Shunning the US has, of course, proved a serious short-term misjudgment. On the other hand, Wall Street's 22 per cent six-month gain is not that much ahead of Europe's 19 per cent appreciation (these rises are in sterling). The switch from the US to Europe has therefore not been very costly this year.

The over-commitment to the Pacific region is another matter. Although the Hong Kong market has stood up well to recent political uncertainties, its index has climbed only 9 per cent this year. Elsewhere the region is in trouble, with Thailand and Korea (though the latter is not in the FT/S&P Actuaries world index series) plumbing the depths and Singapore and Malaysia down too. Overall, the regional index has risen only 3 per cent in six months.

British institutions have long favoured south-east Asia as a source of exotic growth and glamour. The large exposures now evident date back to the exceptional returns of 1993, when Hong Kong doubled.

UK fund managers have held on patiently, expecting a repeat of the bull market of the early 1990s. They tend to have offices in Hong Kong but not in, say, Brazil. The south-east Asian region has, however, proved disappointing.

Meanwhile, US-based managers have found far richer pickings in Latin America, where the Mexican stock market is up 35 per cent in six months in sterling terms and the Brazilian index 63 per cent.

Too many of the south-east Asian economies have reached a critical stage of development, where the inadequacies of the financial infrastructure are revealed. Thailand, for example, has a domestic financial crisis and is under attack by currency speculators.

Maybe the apparent Latin American ascendancy reflects strong cash flow from the north rather than any economic miracle. But whereas UK-based managers used to have the biggest cheque books and were the dominant influence on the emerging markets, now they are having to adapt to a new reality in which US funds call the tune.

Hong Kong is now Chinese. UK fund managers may also have to concede they have surrendered part of their empire.

This announcement appears as a matter of record only. *July 1997*

MARCHPOLE

YvesSaintLaurent
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£4[illegible],000,000
Equity raised for the acquisition of a [illegible] stake in Marchpole Holdings Limited

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Motorola to stop making D-Ram chips

By Louise Kehoe in San Francisco

Motorola plans to phase out production of dynamic random access memory (D-Ram) chips, the most widely used type of data storage, and will reallocate production facilities to other chips, the US semiconductor and electronics group said yesterday.

The decision would not lead to job losses, Motorola said, but the company expected to take a pre-tax charge in the current quarter of about \$170m to write down technology development costs and manufacturing equipment.

The shift is part of a broad realignment aimed at focusing resources on high-growth markets, Motorola said.

The market for D-Rams is notoriously volatile and prices for the "commodity" chips, which are produced by numerous manufacturers in Asia, fell precipitously over the past two years.

Ironically, Motorola's exit from the D-Ram market comes as prices are firming. However, it also coincides with the emergence of a new generation of higher capacity D-Rams, which require substantial new investment in plants and equipment.

Motorola has deliberately limited its participation in the D-Ram market to a lower than 5 per cent share of the world market since the mid-1980s, and over the past three years its share has been less than 2 per cent.

Motorola has two joint ventures in the D-Ram market, with Siemens of Germany and Toshiba of Japan. The US company said it would maintain these partnerships, but convert its share of production to other products.

In Japan, Motorola's joint venture with Toshiba currently produces D-Rams, microprocessors, and other logic products The joint venture's newest facility, which now produces 16-megabit D-Rams, will gradually shift operation to logic products.

With Siemens, Motorola is building a large semiconductor plant in the US which was originally designed for D-Ram production. Instead, the companies will now use D-Rams to ramp to volume production and then switch Motorola's portion of production to other types of memory chips.

Siemens and Motorola remained committed to making the plant the world's most competitive memory factory, said Mr Andreas von Zitzewitz, president of the Siemens' memory division.

Motorola's withdrawal from the \$30bn D-Ram market leaves Texas Instruments and Micron Technology as the only large US participants in this segment of the semiconductor industry.

The market, which is expected to grow to more than \$70bn over the next four years, is dominated by South Korean and Japanese producers, with several Taiwanese ventures also competing for market share.

Coca-Cola on track to hit sales targets

By Richard Tomkins in New York

Coca-Cola, the US soft drinks company, yesterday indicated that sales had continued to fizz in the second quarter, saying it expected to report a 7 to 8 per cent increase in the volume of drinks sold compared with the same period last year.

It also said it would report an after-tax gain of \$200m in the second quarter from the sale of its 30 per cent stake in Coca-Cola Bottlers Philippines to Coca-Cola Amatil, the Australian bottler, announced in April.

The announcements helped the shares claw back some of the ground they had lost the day before, when an unusually large sale towards the end of the session left the shares \$3$\frac{1}{4}$ down at \$67$\frac{1}{2}$. In early trading yesterday, they had rebounded to \$68$\frac{3}{4}$.

However, the optimism was muted because the volume increases marked a slight slow-down from recent growth rates. Further, Coca-Cola said the \$200m gain would be only "partially" additive to its results, suggesting that it might be offset by other factors.

Coca-Cola aims to beat the rate of growth in the US soft drinks market and to increase volumes at a rate of 8 to 10 per cent outside the US. Yesterday it appeared set to achieve both targets in the second quarter.

The company said it expected US volumes to have risen by 4 to 5 per cent, and while it did not separate the expected increase in volumes outside the US, analysts said the figure appeared to be 8-9 per cent.

Mr Roy Burry, an analyst at Oppenheimer & Co, said: "The good news is that both of these gains are good and within the target range. The bad news is that they show some slowing."

Mr Burry said the US growth rate of 4 to 5 per cent compared with 6 per cent last year and 8 per cent in this year's first quarter, while the international growth rate of 8 to 9 per cent compared with 9 per cent last year and 9 to 10 per cent in this year's first quarter.

However, the figures were within the range of expectations, and analysts appeared content with their forecasts of second quarter earnings. According to the First Call research service, the consensus forecast is for earnings per share of 47 cents, up from 42 cents a year earlier.

Fizzing: Coke aims to beat the rate of growth in the US soft drinks market

Office Depot shares tumble 19%

By Richard Tomkins

Shares in Office Depot plummeted 19 per cent in early trading yesterday after a federal court shocked Wall Street by blocking an agreed \$4bn takeover of the US office supplies superstore chain by Staples, its biggest rival.

Late on Monday, the US District Court in Washington granted the Federal Trade Commission a preliminary injunction against the merger, upholding the FTC's view that the deal was anti-competitive and would lead to higher prices.

The outcome broke new ground in US merger policy by introducing theories about the so-called unilateral effects model. This seeks to predict the ability of big consumer product companies to exercise power over the market in spite of competition from smaller rivals.

Staples and Office Depot had argued that their merger could not be seen as anti-competitive because the combined companies would control barely 5 per cent of the US office supplies market. But the FTC said the merged company would dominate a distinct market segment served by office supplies superstores.

Mr Phillip Proger, a partner of Jones Day Reavis & Pogue, a Washington law firm, said the outcome was "a big win" for the FTC. "I think it means the FTC is likely to be much more aggressive in future on transactions involving retail channels of distribution," he said.

Staples said the boards of both companies would review the judge's decision over the next few days, but Mr Thomas Stemberg, Staples chairman and chief executive, said it was likely that the merger would be terminated.

"After spending millions of dollars and countless hours of associate time on the merger process, the additional expense and time involved in pursuing the matter further in the court system doesn't seem to be in the best interest of our shareholders, employees or customers," Mr Stemberg said.

Office Depot's shares tumbled \$3$\frac{11}{16}$ to \$15$\frac{3}{4}$ in early trading, roughly the level at which they were trading before the all-share bid.

In contrast, Staples' shares gained \$1$\frac{3}{8}$, or 6 per cent, to \$24$\frac{3}{8}$, in the belief that Staples had learned useful trade secrets from Office Depot during the merger process.

Staples appeared to confirm this, saying it had gained "valuable insights" over the last nine months, particularly in merchandising and distribution.

Westinghouse denies CBS sale

By Richard Waters in New York

Westinghouse Electric yesterday denied a report that it was considering selling the CBS television network, which lies at the centre of its ambition to turn itself from an industrial conglomerate into a media and entertainment company.

The New York Post reported that both Microsoft and Seagram were considering a bid for the network, which had earlier prompted a 7 per cent jump in Westinghouse's stock. By late morning, though, the shares had settled back to \$23$\frac{11}{16}$, a rise of \$$\frac{5}{16}$ from the previous day's close.

Westinghouse said it planned to "build CBS into the pre-eminent media company in the industry, not to sell it."

Microsoft also later denied the report, saying it was committed to a joint venture with NBC, a rival network, which has produced a pioneering all-news cable television channel and internet news service.

The report, the latest in a round of rumours about CBS, comes as Westinghouse is edging closer to shedding the last of its manufacturing operations, leaving the group's own long-established broadcast television stations plus CBS, Infiniti Broadcasting, a radio group, and the country-music cable television stations once owned by Gaylord Entertainment.

The break-up, planned to take place before the end of this year, is the culmination of a four-year effort of Mr Michael Jordan, chairman, to shed underperforming operations. Helped by takeover speculation, the shares yesterday were more than 50 per cent above their low point of the last 12 months.

AMERICAS NEWS DIGEST

Investors seek Hapoalim stake

A group of investors led by Mr Ted Arison, the US businessman, yesterday pressed the Israeli government to stick to its timetable for selling off Bank Hapoalim, Israel's biggest bank, and said the consortium would bid for the entire 69 per cent stake the government has put to tender.

"We intend to take the state out of the bank completely," said a representative of Mr Arison's group. The group intends to bid for an immediate 34.5 per cent stake in the bank, with an option to purchase an additional 34.5 per cent. It would not confirm recent reports that it plans to bid between \$825m and \$890m for the first stage of the sale.

Mr Arison's representative said his consortium began negotiations this week on the conditions of the sale with MI Holdings, the state agency charged with selling the banks. If the government places no obstacles, he said, the sale process should be completed by August 18.

Mr Arison's consortium also includes Claridge-Israel, the investment group backed by Mr Charles Bronfman, the Canadian businessman, and other US and Israeli investors. A second group led by Mr Jeffrey Keil, the US banker, is also competing in the tender.

Avi Machlis, Tel Aviv

Santander, Osorno unified

Banco Santander Chile has completely integrated the operations of Banco Osorno after the 1996 merger of the two Chilean banks, reducing personnel costs in the first five months of the year by 24 per cent in the process. Banco Santander said it had closed 41 branches, representing 19 per cent of the bank's total network, and reduced staff levels by 860 employees, or 18 per cent of payroll.

The unification of the Santander and Osorno credit portfolios forced the bank to take a \$17m accounting charge in the first half. Spain's Santander Group bought 50.8 per cent of Osorno for \$495m last year from Chile's Infisa group. It subsequently merged the two banks, and now owns about 75 per cent of Banco Santander Chile.

Santander said it was able to maintain its 14 per cent pre-merger combined share of the Chilean current account market. It said it also raised commission income as a percentage of gross margin to 16.6 per cent, from 14.1 per cent prior to the merger. *AP-DJ, Santiago*

Argentine bank buy

Banco de Galicia y Buenos Aires, one of Argentina's largest banks in terms of assets, is to buy a small regional bank. The purchase of the unspecified bank comes amid ongoing consolidation in Argentina's financial system, which has been fuelled by the arrival of leading international institutions. Galicia itself has been the subject of acquisition rumours.

In May 1997, Galicia completed its 31.2m peso (\$32m) purchase of 49 per cent of Banco Sudecor Litoral, an 80-branch bank based in central Cordoba province. Its December 1996 purchase of 30 per cent of Brazil's Banco BCN Barclays is pending regulatory approval.

AP-DJ, Buenos Aires

Velox arranges funding

Velox Investment, the majority shareholder of Argentine supermarket chain Disco, said it landed a \$200m short-term loan to finance its acquisition of 37 per cent of Chile's Santa Isabel. A group of banks led by the US's Citibank provided the six-month financing. Velox said it put up a 26 per cent Disco stake to guarantee repayment. Its Velox International Investments unit in May agreed to pay \$229.7m for the 37 per cent stake in Santa Isabel, Chile's largest supermarket chain. *AP-DJ, Buenos Aires*

Disney sees growth in Peru

Walt Disney, the US entertainment company, expects \$20m in 1998 from product sales in Peru, with an average 30 per cent annual growth for the next five years, according to local newspaper reports. *Reuter, Lima*

Warner-Lambert shares surge

Shares of Warner-Lambert gained more than 5 per cent yesterday amid growing optimism for sales of two new drugs: Lipitor, used to reduce cholesterol, and Rezulin, which is for patients with Type II diabetes who are already taking insulin. Warner-Lambert was \$6$\frac{5}{16}$ higher at \$130$\frac{3}{16}$ in early afternoon trading. *Reuter, New York*

Stet faces suit over Cuban link

By Paul Betts in Milan and Leslie Crawford in Mexico City

Stet, the Italian telecommunications group which is poised to sign today a strategic partnership with AT&T, is facing tangled web of multi-million dollar litigation relating to its Cuban telecoms interests.

The litigation, involving claims and counter-claims for several hundred million dollars, is likely to be a thorn in the side of the company as it prepares for privatisation in October.

The row is mainly with Domos, the private Mexican group which had been a partner in Cuba with Stet until it pulled out recently.

Stet entered the Cuban market three years ago when it bought for about \$280m a 25 per cent stake in Compañía Interamericana de Telecommunicaciones (Citel), a subsidiary of Domos. Citel had earlier taken a 49 per cent stake in Etecsa, the island's telecoms company.

However, the joint venture came under strain after the Mexican group failed to pay a final instalment of \$320m for its original 49 per cent stake. Domos had agreed to pay \$706m for this holding, and soon after signing the deal with Cuba sold a 25 per cent interest in Citel to Stet.

Domos had also pledged to invest \$750m over seven years to modernise Cuba's outdated telecoms network. The deal was the biggest foreign investment in the island.

The Mexican group has now relinquished its stake in the Cuban company and Stet is the only foreign investor, with a stake of about 30 per cent.

Stet sued Domos for about \$300m in July 1996, since the Citel subsidiary continued to owe the Cuban government an outstanding instalment for its equity stake in the Cuban telecom company.

But Mr Reginaldo Cepeda, Domos chief legal adviser, said the company was now in turn studying the possibility of initiating legal action against Stet to claim compensation "for a minimum of \$900m" relating to the Mexican group's divestiture from Etecsa.

To complicate matters further, Stet has also been talking to ITT, the US group which operated the Cuban network before the Castro revolution, to compensate the US company for its Cuban holdings confiscated in 1960.

ITT is understood to have \$130m in outstanding Cuban claims.

Settling the ITT claims is important for Stet to avoid facing sanctions under the Helms-Burton Act – the US legislation which requires foreign companies to report to Washington any assets they own in Cuba that were confiscated from US owners.

RHÔNE-POULENC INFORMS ITS SHAREHOLDERS

Rhône-Poulenc accelerates the pace of its transformation

" To continue to strengthen its presence in life sciences, reinforce the improvement in the performance of its chemicals/fibers businesses and increase its strategic flexibility, we are studying two major potential initiatives which would mark a significant new phase in Rhône-Poulenc's development:

- *Reinforce Rhône-Poulenc's position in pharmaceuticals through an increase in the Company's ownership of Rhône-Poulenc Rorer from 68.3% to 100%.*

Rhône-Poulenc, with Rhône-Poulenc Rorer and Pasteur Merieux Connaught, already ranks among the leading pharmaceuticals groups worldwide, and is one of the foremost groups in animal and plant health.

- *Combine the chemicals and fibers & polymers businesses of Rhône-Poulenc to create a new company which would be listed in 1998, if market conditions permit. Rhône-Poulenc would retain substantial majority control of the new company.*

Combining the chemicals and fibers and polymers businesses into a new company would increase technological, industrial and commercial synergies.

I am convinced that if we undertake these initiatives, we will enhance shareholder value for Rhône-Poulenc Rorer and Rhône-Poulenc. "

Jean-René Fourtou
Chairman and Chief Executive

Rhône Poulenc, one of the leading groups worldwide in life sciences and specialty chemicals, contributes, through its innovations, to the improvement in health of men, animals and plants, as well as the quality and safety of products used in industry and daily life.

Financial implications of these operations:

- The Group would have only one publicly-listed life sciences company, Rhône-Poulenc.
- The net debt-to-equity ratio would be brought down to 60% by the end of 1998 and to 50% by the end of 1999 as a result of:
  - the improvement in operating cash flow;
  - the increase in equity;
  - the capital raised by listing the new company;
  - the divestiture of non-strategic assets.
- Rhône-Poulenc's objective remains to increase its earnings per share by 20% in 1997 and 1998, despite a slight dilution in the first two years and excluding exceptional items.
- The Group expects to maintain the 1997 dividend per share at a level at least equal to 1996.

If Rhône-Poulenc's Board of Directors decides to proceed with all or some of these initiatives, appropriate corporate approvals will be requested and required procedures with employee representatives will be observed.

Investor Relations:
25, quai Paul Doumer
92408 Courbevoie cedex. France

For additional information, contact:
+33 1 47 68 00 97

Internet :
http://www.rhone-poulenc.com

Omnium

RHÔNE-POULENC

The Financial Times plans to publish a Survey on

Japan

on Tuesday, July 15

Haj Haffejee in London
Tel. +44 171 873 4784
Fax: +44 171 873 3204
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Nissan sets up telecoms R&D unit

By Michiyo Nakamoto in Tokyo

Nissan, Japan's second largest vehicle manufacturer, has set up a company for research and development of telecommunications technologies to support its mobile communications affiliates.

The new company, Nissan Communications Systems, will take on R&D activities to develop mobile telecoms services, including research into mobile phones. It will also develop, produce and sell telecoms equipment and software. Nissan hopes to strengthen consulting activities for the telecoms industry through its new unit.

Nissan Communications Systems will be 100 per cent owned by Nissan and is expected to support the Tu-Ka Cellular group of nine regional mobile phone companies, in which Nissan owns stakes of up to 30 per cent.

The decision to set up a separate telecoms company stemmed from intensifying competition in Japan's mobile phone market, Nissan indicated.

Separately, Toyota, Japan's largest carmaker, has set up a vehicle parts manufacturing unit in northern Japan. The unit will start production of parts for anti-lock brake systems in the autumn 1998. Toyota is targeting sales of Y7bn ($61m) in the year to March 2000.

Toyota had planned to set up the subsidiary in 1990, but the prolonged slump in its home market forced it to put off the plan.

● Mazda plans to boost capacity utilisation at its Hofu plant in southern Japan, which has been running at only about 40 per cent capacity.

The carmaker invested Y60bn in Hofu in 1992, adding a new line for luxury vehicles. But the state-of-the-art plant has suffered from low capacity utilisation since the yen's sharp rise against the dollar hurt exports and Japan's vehicle market slowed.

Mr Henry Wallace, Mazda president, has aimed to increase capacity at Hofu since he assumed the top job when Ford, the US carmaker, increased its stake in the Japanese company to 33.4 per cent last April.

Mazda plans to lift production of the restyled Capella saloon in an attempt to raise capacity utilisation at Hofu to more than 60 per cent in the second half of 1997.

Western groups woo Japan's savers

Opportunities in mutual funds are substantial but marketing problems will have to be overcome

This summer some Japanese brokerages are sporting striking posters of Galileo and Marco Polo. In an effort to attract Japanese savers, Goldman Sachs, the US investment bank, has christened its funds after inspiring western legends.

The tactic has paid off. In the 11 months since Goldman Sachs started the business in Japan, its funds have increased 20-fold, to more than Y450bn ($3.9bn) in May, leaving it the largest foreign group in Japan's retail mutual fund business – known as investment trusts in Japan.

The question now puzzling many western banks and fund managers is whether this surge reflects an isolated marketing success, or heralds a broader boom in Japan's hitherto underdeveloped mutual fund sector.

Fidelity, the US group which is the world's largest fund manager, hopes it points to a boom. Last week it received permission from the Japanese government to establish a brokerage business in Japan. It plans to use the new business to set up the first fully-fledged US-style telephone investment services in the country later this year.

Ms Donna Morris, branch manager of Fidelity Brokerage Services, says: "The opportunity here is just phenomenal – it is the second-largest capital market in the world."

Other western groups are less sanguine. Although mutual funds have been sold in Japan for more than a decade, attempts to persuade Japanese savers to buy more mutual funds have had limited success. At present they account for a mere 3 per cent of all assets, compared with 10 per cent in the US.

Many observers suspect that marketing and distribution problems will need to be overcome before the sector can take off. One fund manager says: "Most Japanese savers are very suspicious of mutual funds – there is a real marketing problem here."

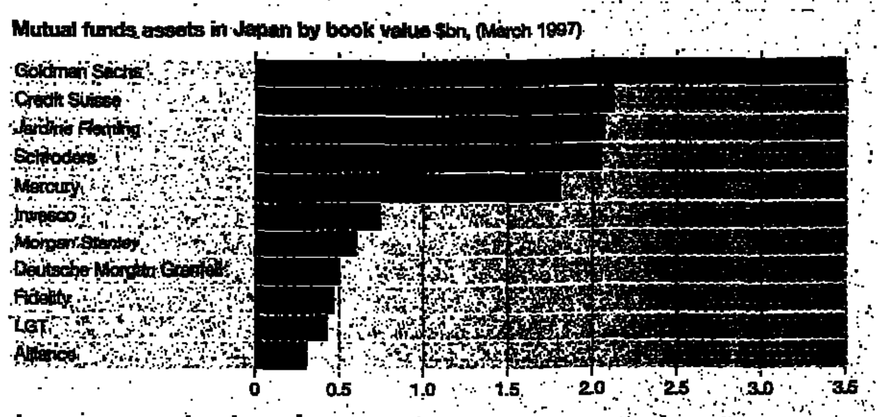
The suspicion stems in part from the Japanese stock market's falls earlier this decade, in which many fund holders had their fingers burnt. However, western bankers say another factor has been the marketing style of Japanese brokers, who manage more than 90 per cent of the mutual funds in the country.

These brokers have tended in the past to sell mutual funds not as long-term investments, but as short-term quasi-speculative instruments. Brokers' customers, for example, have been encouraged to change their funds frequently. And although this generated fees for the brokers, it has left many Japanese investors suspicious of mutual fund products.

Until now, foreign groups have generally been forced to use Japanese brokers to sell funds, as they had an effective monopoly on distribution. However, the relationship has been uneasy.

Foreign investment advisers in Japan

Mutual funds assets in Japan by book value $bn, (March 1997)



Japanese personal sector savings

$bn	March 1986	March 1990	Sept 1996
Cash and deposits	[illegible]	[illegible]	[illegible]
Insurance	922	1,784	3,000
Bonds and stocks	[illegible]	[illegible]	[illegible]
Trusts	403	576	773
Mutual funds	[illegible]	[illegible]	[illegible]
Total assets	5,372	8,872	11,925

Source: Cunby & Company, JSIAA, JITA

'What we are trying to do is turn savers into investors . . . That will not happen overnight'

Most of the Japanese brokers also sell in-house funds developed by their own investment trust affiliates, and are not always committed to marketing competing products. Mr Akira Ishida, of Goldman Sachs Investment Trust Management, says: "If Japanese houses sell too many other products this can cause internal conflicts."

Western groups are now mulling other distribution options, but cheap alternatives are not readily available. Setting up a high-street distribution network or purchasing a large Japanese broker, for example, would be very costly.

Another option is the Japanese banks. Though these have been barred from mutual fund business until now, the planned deregulation of the financial sector will allow them to distribute funds for the first time later this decade. This could provide a new competitive alternative to the brokers and introduce mutual funds to a wider segment of the population.

In the meantime, Fidelity's move last week has introduced another possibility – the telephone.

The US group plans to start offering brokerage trading services over the telephone later this year, followed by fully-fledged investment services early in 1998. It hopes this will enable it to reach clients directly and introduce Japanese savers to the unfamiliar US concept of using mutual funds for purposes such as retirement or education.

Telephone trials over the last year at the Japanese broker Nomura and the UK group Mercury Asset Management have had only limited success, and even Fidelity admits it is unsure about demand. Initially it plans to invest in no more than a few dozen staff and says it will continue to distribute through brokers.

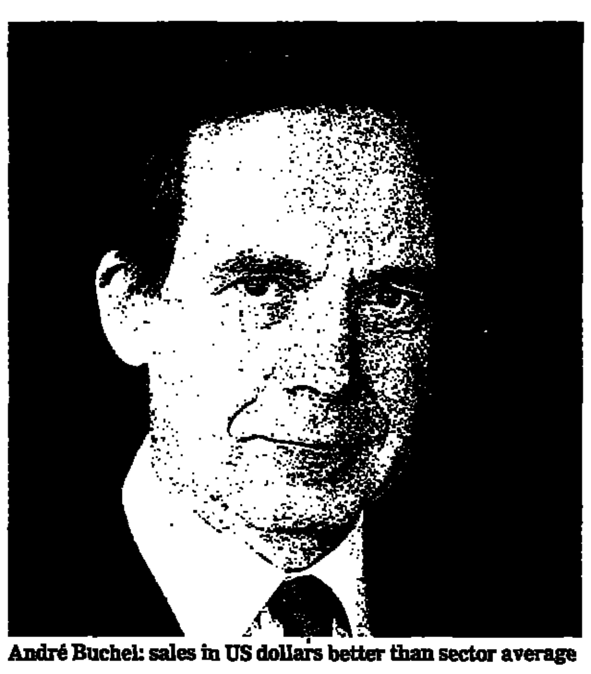
If the move works, it is likely to be copied. "What we are trying to do is turn Japanese savers into investors," explains Ms Morris. "That will not happen overnight – but it did not happen quickly in the US either. Japan now looks like the US did 20 years ago."

Gillian Tett

Sulzer Medica aims at pace of US tech stocks

Mr Fritz Fahrni, chief executive of Sulzer, has a spring in his step again. After nine years of struggling to turn round one of the grand old names of Swiss engineering, he finally has something to show for his efforts.

Sulzer is about to sell 25 per cent of Sulzer Medica, which makes everything from artificial hips to heart pacemakers, in an initial public offering of 2.3m shares. Sulzer shares, after years of underperformance, have risen by around two-thirds this year in response to the decision to unlock the only real jewel left in the Sulzer crown, raising around SFr700m ($480.1m) from the IPO.



André Buchel: sales in US dollars better than sector average

The Sulzer Medica IPO is being described as Europe's answer to successful US medical technology stocks such as Medtronic, Guidant and DePuy. Guidant shares have risen nearly sixfold since the spin-off from Eli Lilly in December 1994.

With two-thirds of its staff in the US and 95 per cent of its sales outside Switzerland, Sulzer Medica regards itself as more like a US company, which explains its decision to seek an additional New York listing.

Sulzer Medica's earnings have been flat for the past three years but Mr André Buchel, chief executive, is confident that that is about to change. Sales growth may look sluggish in Swiss franc terms but in US dollars they have been growing more than 8 per cent a year since 1992, which is better than the industry average, says Mr Buchel.

The Sulzer Medica story started in Sulzer's Winterthur foundries in the early 1960s. Swiss surgeons were seeking a suitable material for hip transplants and Sulzer engineers came up with a biocompatible alloy. For the next 25 years, Sulzer concentrated on orthopaedic products, which still contribute just over half total sales.

In Europe, one in four artificial hips comes from Sulzer and it is the European market leader. However, the $6.6bn world market is relatively mature, and Sulzer only has 6 per cent of the profitable US orthopaedic market, which accounts for nearly half world sales.

In 1988 Sulzer Medica paid $800m for Intermedics of the US which took it into heart pacemakers – an industry dominated by Medtronic of the US, which has half the world market. It is the fastest growing part of Sulzer Medica's business and accounts for more than a third of total sales.

Sulzer Medica's ability to hold on to its number three position hinges on keeping pace with rapid technological changes. Until recently it has only been able to provide bradycardia pacemakers, which manage slow or irregular heartbeats. These account for around three-quarters of the $3.3bn world market in pacemakers.

The biggest growth is in areas such as implantable cardioverter defribillators, which treat potentially fatal fast heart beats by delivering minute electrical shocks. Sulzer has been slow to enter this market but has recently launched the Res-Q Micron defribillator. Once implanted in a patient, this allows extra therapeutic options to be added by tapping in a new software code rather than resorting to open heart surgery.

The most profitable part of Sulzer Medica's business is mechanical heart valves, where it is number one in Europe. However, operating margins have fallen from 47.1 per cent in 1993 to 28.8 per cent in the first quarter of 1997, as the company has shifted away from sub-contracting for rival manufacturers towards selling its own products, involving heavier marketing expenses.

With the proceeds from the IPO, and the greater commercial freedom, Sulzer Medica is expected to go on the acquisition trail.

However, the recent $80m damages to settle an orthopaedics patent dispute with Stryker, a US rival, highlight the fact that rapidly changing technology is not the only business risk facing companies such as Sulzer Medica. Product liability is a third risk. It is far easier to recall 20,000 cars than 20,000 pacemakers lodged inside patients.

Sulzer Medica's shares will be priced on July 14 and based on an indicative price of SFr300-SFr350. Analysts estimate it is being valued at between 15 times and 18 times 1998 earnings. Its profits are expected to grow anywhere between 10 per cent and 18 per cent over the next few years.

Morgan Stanley, which is leading the issue, has done two comparable transactions over the past three years. It floated Guidant, which makes pacemakers, in 1994, on a prospective multiple of 11.3 times earnings, and DePuy, the world's oldest orthopaedic company, last October, on 14.2 times 1997 earnings.

Guidant is now trading on 28 times 1996 earnings and DePuy on 16 times earnings, which suggests that Sulzer Medica, which straddles both businesses, has been reasonably priced.

William Hall

NZ media groups in talks

Independent Newspapers of New Zealand is in talks to buy 51 per cent of Sky Network Television, the pay-TV network, AP-DJ reports from Wellington.

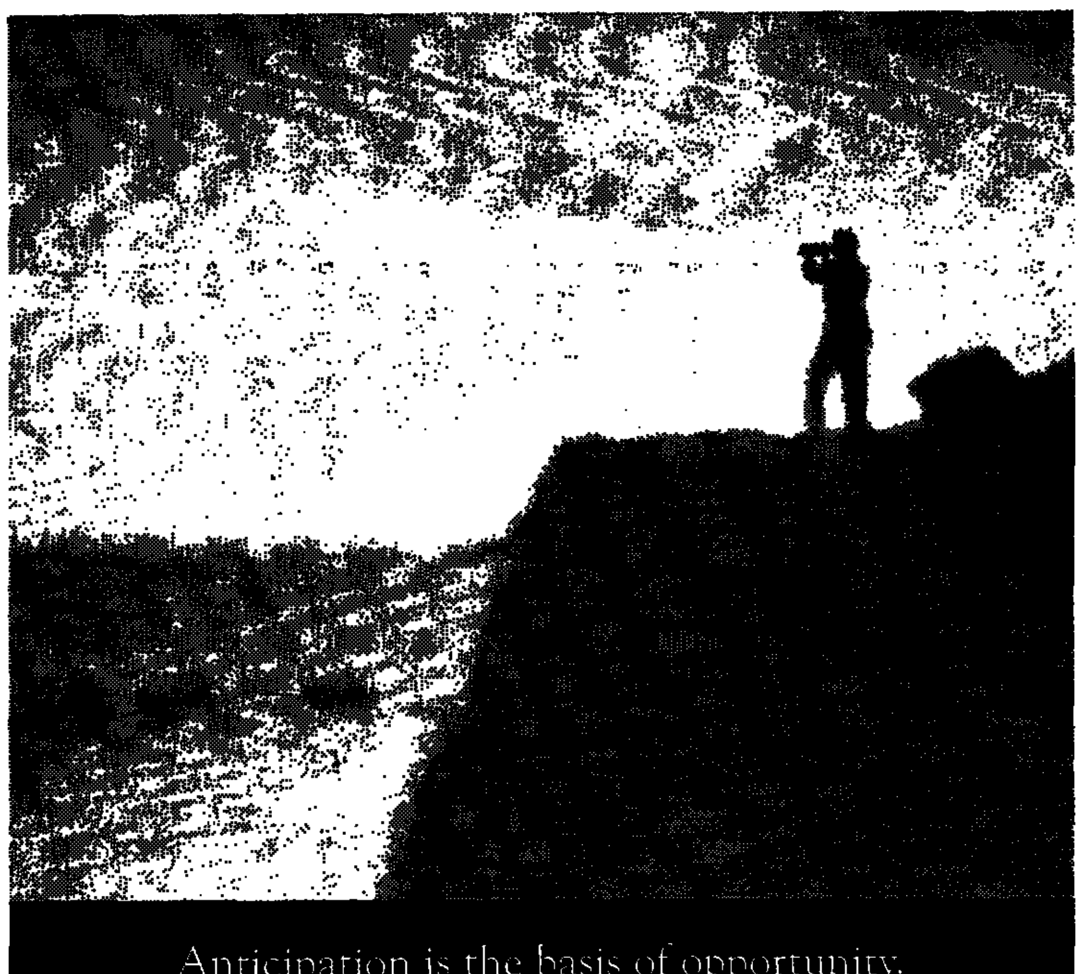
The stake is held by HKP Partnerships, a venture between four US communications and media groups: Ameritech, Bell Atlantic, Time Warner and TCI.

News Corp, Mr Rupert Murdoch's media group, owns the remaining 49 per cent of Sky Network.

Mr Mike Robson, Independent's managing director, said he hoped that negotiations would be successfully concluded in the near future.

Earlier this year Independent Newspapers abandoned talks to buy up to 84 per cent of Sky Network.

Last month reports circulated of a public offering of Sky Network shares. The size of the issue was estimated at NZ$800m (US$542.2m). Analysts say Independent Newspapers could emerge as a cornerstone shareholder in a listed concern.



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مكان الأصل

Renault, Peugeot in gearbox link

By Andrew Jack in Paris

Renault and PSA Peugeot-Citroën, the rival French car manufacturers, yesterday unveiled a new automatic gearbox, in the latest technical link-up between the two groups.

The companies said they had each paid for half of the FFr2.8bn ($477m) investment required for the development of the gearbox, which should be available in several models of their cars from next year.

Mr Louis Schweitzer, chairman of Renault, said the new product was the latest in a series of collaborations between the two groups since 1966. These have included the creation of joint research laboratories and the development of engines and gearbox technology.

Mr Jacques Calvet, chairman of PSA Peugeot-Citroën, stressed that co-operation in technical areas was possible between the two groups, but ruled out the often-mooted idea that the groups should merge.

He also said the groups may be willing to sell the gearbox to other car manufacturers.

The gearbox has been under development by a joint team of 350 employees since the middle of 1992. At full capacity, daily production will total 1,600, taking place at Société de Transmissions Automatique, which is 80 per cent controlled by Renault, and at Peugeot's Valenciennes site.

Responding to questions on the poor health of the French car industry, Mr Calvet predicted further declines in new vehicle registrations during the year and said greater volumes of purchases to renew the existing stock of cars would help contribute both to road safety and environmental pollution.

He attacked the emphasis of French macro-economic policy on fighting inflation. He called for reform of the country's system of business rates, reductions in value added and corporation tax, and modifications to the regulations governing company cars.

Mr Schweitzer attempted to avoid questions on the closure of the Renault plant at Vilvorde in Belgium, which has triggered a renewed political storm after the decision was confirmed over the weekend.

He stressed that the Renault board had taken the move in the interests of the company, and that it would now begin negotiating a redeployment plan for the 3,100 employees.

Mr Lionel Jospin, the French prime minister, told Socialist deputies in the National Assembly yesterday afternoon that there would be no redundancies as a result of the closure.

He emphasised that his government had met its campaign commitment by re-examining the case without promising to keep the plant open.

Playing liar's poker with Eurotunnel

A group of the company's shareholders meets today to decide whether to back the planned $14bn restructuring

Christian Cambier: represents the anxieties of Eurotunnel's individual shareholders

Mr Christian Cambier looks more than a little nervous. The pressure is mounting on the man who represents one of the largest outstanding groups of shareholders threatening to block Eurotunnel's £8.5bn ($14bn) restructuring plan.

Five years after he created the Association of Eurotunnel Shareholders, he has probably never had such a critical role in determining the future of the company. Some 15 of the association's members meet today to decide whether they will support the plan at the company's extraordinary general meeting on July 10.

"We are playing liar's poker," Mr Cambier says in his Paris office. "I have to be calm. I don't have the right to make mistakes. We have a single shot at success."

His timing appears to have been perfect, arranging his meeting the day after the UK and French governments met his association's key condition for voting in favour: an outline in principle to extend the Eurotunnel's operating concession beyond its current expiry date of 2052.

Mr Cambier admits that he has also been "psychologically weakened" by the surprise decision on Monday by Northern Cross, the investor which holds 37m shares, to change tack and vote in favour of the restructuring – apparently with no conditions attached.

The effect has been suddenly to reduce his bargaining position, since at least 58m votes would be required to block the plan. Between his 3,000 members and other investors who have provided him with proxies, Mr Cambier hopes to wield 15m-20m shares. Other opponents are claiming a further 15m.

But Mr Cambier's position is significant, not just because of his voting influence, but also because he represents the anxieties of Eurotunnel's individual shareholders. Like many of them, he is likely to vote in favour, even though he has been frustrated on many occasions by the company.

Trained as a stockbroker, he left Compagnie Financière Edmond de Rothschild – with which he retains close contacts – to form Prigest, his own investment company, in 1982. He claims FFr1.2bn ($204m) in funds under management from 200 clients.

He created his association in 1992 because "every time I went to an analysts' meeting, the chairman announced bad news". He says: "There are 700,000 isolated shareholders out there. They are frustrated and lost. It was imperative to create a lobby."

He twice hired trains to take his members through the Channel tunnel, and last year marched them to the British embassy to demand an extension of the concession. In 1994, as the share price plummeted, he lobbied Mr Edouard Balladur, the then French prime minister, to nationalise the tunnel with the slogan "Give us our money and we'll give you back the baby".

Mr Cambier criticised the composition of Eurotunnel's board and helped launch judicial inquiries into alleged price-fixing. He has spoken out over the pain to investors caused by the restructuring, and over the non-executive directors who until recently held just one share each in the company.

Careful not to take a decision on his own, he has asked his executive committee, as well as other association members selected at random, to sign their names alongside their votes in today's meeting.

But he has already indicated that he himself will vote in favour – and threatened to take the 5m shares he holds for family, friends and clients with him, whatever the decision of the association. One member of his committee has already resigned in protest.

"I'm not Zorro and I'm not a kamikaze," he says. "We will make our support conditional on an extension of the concession." But I am convinced that we would lose everything if Eurotunnel went bankrupt."

Andrew Jack

Go-ahead for Ambroveneto bank buy

By Paul Betts

The board of Banco Ambrosiano Veneto (Ambroveneto), the private Italian bank, yesterday gave the go-ahead for the L8,500bn ($5bn) acquisition of Cariplo, Italy's largest savings bank. The purchase will create one of the country's biggest private banking groups.

The deal will also lead to the privatisation of Cariplo, which is owned by a charitable foundation. It will be financed largely by a capital increase by Ambroveneto of between L6,200bn and L6,800bn.

Ambroveneto and the Cariplo charitable foundation are expected to finalise details of the purchase by the end of this month. Privatisation should be completed by the end of this year.

The first stage will see Ambroveneto hive off its banking activities into a new company, leaving only a holding company. This will own 100 per cent of Ambroveneto's banking operations and those of Cariplo, although initially these will be kept separate.

The Cariplo foundation, led by Mr Giuseppe Guzzetti, its new chairman, will remain a core shareholder of the Ambroveneto holding group, with an initial stake of 29 per cent.

Crédit Agricole, the French bak which owns 29 per cent of Ambroveneto, will see its stake drop by 3-4 per cent to 25-26 per cent. However, this is expected to rise again to about 29 per cent, making it the largest single shareholder in the new enlarged group.

Alleanza, the Italian life assurer, will own 16 per cent and become the insurance partner for the Ambroveneto and Cariplo banking activities. A further 4 per cent will be held by a group of investors from the Veneto and Lombardy regions.

These will constitute the core shareholders of the new banking group. They will control 70 per cent of the Ambroveneto holding, with the remaining 30 per cent floated on the market.

Ambroveneto, which is already listed, said the capital increase to finance the deal would involve new ordinary and savings shares, as well as warrants and convertible bonds.

Half of the total capital increase of between L6,200bn and L6,800bn will be raised in the next few months, with the remainder over the next five years.

The Cariplo foundation has already agreed to acquire the 12.7 per cent stake held in Ambroveneto by the Cariverona savings bank for about L500bn.

The Verona savings bank was one of Ambroveneto's core shareholders, but decided not to take part in the operation.

Price rises bring end to Spain's phone war

By Tom Burns in Madrid

A fierce price war in Spain's cellular phone business ended yesterday as the two competing domestic operators agreed to raise the price of mobile handsets by 50 per cent.

The increase is the first for users since the cellular phone sector was deregulated in 1995 and a second operator, Airtel, began competing with Telefónica Moviles, the cellular unit of the dominant telecoms group.

The ensuing price war helped fuel one of the fastest growth rates in mobile telecom use in Europe.

Yesterday's agreement follows a deal last month over compensations due to Airtel under a European Commission ruling, for the payment it made to Telefónica for its cellular licence. Telefónica, which was awarded a free licence, will provide a reduced connection fee to Airtel and the government will increase the cellular frequencies for the second operator and extend the period of its licence.

Both companies denied price fixing yesterday and stressed that the price of bottom-of-the-range handsets, at Pta15,000 ($102), remained artificially low because of the reduced commission payable to distributors. By simultaneously reducing the commissions, paid for introducing new customers to the network, the operators will force the distributors to raise handset prices or accept a much lower trading margin.

The government is likely to be under pressure from consumers to investigate the price increase.

Rivalry between Airtel, which is backed by AirTouch of the US and by British Telecom, and Telefónicas Moviles, drove down the price of bottom-range handsets from nearly Pta50,000 to Pta10,000 last year. For a three-month period, handsets were given away free by both companies.

The Spanish cellular phone market jumped from 2.1m users last October to 3.1m in February and it grew by 261 per cent during 1996. The price war, however, damaged the balance sheets of both companies.

Commissions paid by operators and service providers to dealers and distributors for signing up new customers is depressing operators' profits across Europe. Low cost handsets entice new subscribers but the cost has to be recovered in high call charges, which may result in excessive "churn" - when subscribers leave the network voluntarily.

Telefónica's mobile unit lost Pta2.3bn in the final quarter of last year after posting net profits of Pta18.3bn over the first nine months of 1996. In its first full year of business, Airtel reported losses of Pta34bn. It expects to halve them this year and to break into profits in 1999.

GM unit in Polish acquisition

By Christopher Bobinski in Warsaw

Delphi Automotive Systems, a General Motors subsidiary which specialises in car components production, has bought a 60 per cent stake in Poland's Krosno shock absorber plant.

The acquisition expands Delphi's Polish operation, which will soon employ a total of 5,000.

Delphi, which bought the Krosno stake from the Magna Polonia and other National Investment Funds, has promised to invest $30m in developing the plant.

The stake is reported to have cost $25m.

Krosno reported sales of 145m zlotys ($44m) and net profits of 10m zlotys last year.

Delphi currently has a small car-seat assembly operation in Warsaw, a wiring systems plant near Zywiec in southern Poland, and a car radiators plant in Ostrow Wielkopolski in the west of the country.

Delphi is also building a steering systems plant in the Tychy corporate tax-free zone and is planning to build a seat plant at Gliwice, where GM is constructing a new vehicle plant.

EUROPEAN NEWS DIGEST

WAZ to purchase stake in CLT-Ufa

Bertelsmann, the German media company, and WAZ, a regional newspaper group, said yesterday they had reached an agreement for WAZ to take a 10 per cent stake in CLT-Ufa, the pan-European broadcasting group of which Bertelsmann holds 50 per cent.

The deal, which had been expected, means that CLT-Ufa will gain total control of RTL, a German commercial television network which accounts for 10 per cent of CLT-Ufa's group sales and in which WAZ has held an 11 per cent stake. As well as this stake, WAZ will pay Bertelsmann an undisclosed sum for its share of CLT-Ufa, which will be held indirectly through an intermediary company called BW TV und Film Verwaltung.

For Bertelsmann, the agreement is a further step in tidying up its broadcasting interests, following the merger earlier this year of its Ufa subsidiary with CLT of Luxembourg. Bertelsmann's next goal is to reach agreements with fellow shareholders in three smaller German networks.

Frederick Stüdemann, Berlin

Machinery groups merge

Linotype-Hell, the German graphics machine group, and Heidelberger Druckmaschinen, the machinery group, yesterday finalised their merger with terms of a share exchange. As part of the link-up, which was announced last November, Linotype shareholders will receive two Heidelberger shares, at a nominal or par value of DM5, for every five Linotype shares held, at a par value of DM50. The exchange terms are based on an evaluation of Linotype at DM105m ($60.3m) and Heidelberger at DM5.5bn.

Meanwhile, Linotype said yesterday it expected to return to profit in two years. In 1996, the company suffered a net loss of DM144m and an operating loss of DM282m before restructuring subsidies. Since November, when Heidelberger bought the majority of shares in Linotype, Heidelberger has transferred restructuring subsidies worth DM165m to Linotype.

AP-DJ, Frankfurt

Write-downs hurt Fininvest

Italy's Fininvest Group, which is controlled by former prime minister Mr Silvio Berlusconi, yesterday reported a fall in net profits from L425bn in 1995 to L398bn ($234m) in 1996. However, the company said the drop was partly attributable to lower extraordinary gains in 1996 of L1,399bn, compared with 1,753bn in 1995.

The conglomerate, which has extensive media and retail interests, was also hit last year by write-downs of L213bn compared with nothing in 1995. The higher amortisation costs in 1996 were to some extent offset by lower taxes, it said.

AP-DJ, Milan

Finnish exchanges to merge

The Helsinki Stock Exchange and Finnish derivatives exchange plan to merge to simplify their structure. The exchanges said yesterday the new merged operation would be called HEX. However, they denied the move was aimed at an eventual Nordic link-up. If all owners convert their shares, banking group Merita will be the largest owner of the merged exchange, with a 29.8 per cent stake, and Sweden's OM group will be the second largest with 15.7 per cent.

Reuter, Helsinki

Trustees run Eisenberg estate

An Israeli court has placed temporary ownership of the assets held by Mr Shaul Eisenberg, the former chairman of Israel Corporation, with two trustees. Mr Eisenberg died in April. The decision follows a bitter disagreement among the heirs over Mr Eisenberg's will, in which most of the assets were apparently bequeathed to his son Erwin but which the family has contested in the courts.

The trustees have six months to account for all the assets. In the meantime, managers at Israel Corporation and its subsidies – which include Israel Chemicals and Dead Sea Works – will be permitted to carry out only "the ordinary course of business," said Mr Pinchas Rubin, one of the trustees. They would not be able to take "more severe actions" which would include "investment decisions or changing the current shareholding structures." Mr Rubin said he was not sure if the trustees could allocate within the six months all the assets and shares held by Mr Eisenberg, who had an industrial empire stretching from the US to China.

The decision to place the estate in the hands of trustees coincides with disagreement among the management within Israel Corporation, now headed by Mr Erwin Eisenberg, over its future direction.

Judy Dempsey, Jerusalem

SAB merges Hungarian units

South African Breweries has merged its Hungarian operations, Kobanya and Kanizsa breweries, into a single company called Dreher Sorgyarak. The move, announced yesterday in Budapest by Mr Alan Richards, Dreher chairman, will be accompanied by a capital raising of $54m.

The new company will have share capital of Ft 13bn ($70m) and be 97 per cent held by SAB. The cash injection will be used to pay off $29m in debts, with $15m allocated to a sales and marketing drive and $5m to a new IT system within the company. SAB paid $8m for Kanizsa, and $50m for an 80 per cent stake in Kobanya, Hungary's biggest brewery, in 1993. Since then investment in technology has totalled $40m. Dreher now brews Hofbrau lager and Tuborg under licence. The new company has 38 per cent of the market, and expects to sell 2.7m hectolitres this year, yielding a profit of $7m on turnover of $110m.

Kester Eddy, Budapest

HSBC in Manoir buy-out

Manoir Industries, the French steel forging and foundry business, is being taken private via a management buy-out backed by HSBC Private Equity and Acland, a French associate of the HSBC banking group. The deal is valued at £61.5m ($102.4m), which includes working capital and refinancing of existing debt.

Strafor Facom of France – advised by Société Générale – is reducing its 86 per cent shareholding in Manoir to 10 per cent as it refocuses on its core businesses of office furniture and hand tools. Trust Metal, the quoted Belgian holding company, which owned 10 per cent, is raising its stake to 19 per cent.

The managers, headed by chairman Roger Hubert, will own 15 per cent of the business, while HSBC will hold a direct stake of 33 per cent. Acland, which introduced the deal, will hold a further 14 per cent through its private equity fund. Last year, Manoir reported after-tax profits of FFr47m ($8.01m) on turnover of FFr1.85bn.

Katharine Campbell, Growing Business Correspondent

FTSE share index for Athens

The Athens Stock Exchange is to introduce a new equity market index, the FTSE/ASE 20, on September 24. The index, which will run parallel to the existing ASE general index, will cover the 20 largest and most liquid Greek stocks and has been designed to support derivatives trading. Legislation has yet to be enacted to allow derivates activity, but trading could begin next year.

The index results from a partnership between the Athens exchange and FTSE International, which is jointly owned by the Financial Times and the London Stock Exchange. It runs the UK's benchmark equity indices and various Europe-wide indices and co-owns the FT/S&P Actuaries World indices. The Athens exchange will calculate and operate the new index. FTSE International will sit on the index's independent advisory committee, mirror its calculation and act as auditor.

All of these securities having been sold, this announcement appears as a matter of record only.

July 1997

1,500,000 Shares

ROBOCOM SYSTEMS INC.

Common Stock

BlueStone Capital Partners, L.P.

Coleman and Company Securities, Inc.

Oscar Gruss & Son Incorporated

Cowen & Company — Everen Securities, Inc.

Gerard Klauer Mattison & Co., Inc. — Janney Montgomery Scott Inc.

Mesirow Financial, Inc. — Needham & Company, Inc. — Rodman & Renshaw, Inc.

Roney & Co. — Stephens Inc. — Unterberg Harris

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Ormes Capital Markets, Inc. — Prime Charter Ltd. — Trautman Kramer & Company, Inc.

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("in liquidation")
European Bank & Business Centre, 6, route de Treves
L-2633 Senningerberg, Grand Duchy of Luxembourg
R.C. Luxembourg B 31629

Notice is hereby given that an

Extraordinary General Meeting

of shareholders of The Japanese Warrant Fund ("the Company") will be held at the registered office of the Company, 6, route de Trèves, L-2633 Senningerberg, on 11 July 1997 at 3:00 p.m. (Luxembourg time), or at any adjournment thereof, to decide on the close of liquidation with the following agenda:

1. To hear the report of the auditor of the liquidation;
2. To approve the report of the liquidator and of the auditor of the liquidation;
3. To grant discharge to the liquidator and to the auditor of the liquidation;
4. To grant discharge to the directors in office until the date of the liquidation;
5. To decide to close the liquidation of the Company;
6. To decide to keep the records and books of the Company for a term of five years at the offices of Fleming Fund Management (Luxembourg) S.A.;
7. To decide that proceeds which may not be distributed to the persons entitled thereto be transferred to the Caisse des Consignations for the benefit of the persons entitled thereto.

No quorum is required for this meeting and resolutions will be taken at the majority of the shareholders present or represented.

Holders of bearer shares who wish to attend this meeting are requested to deposit their share certificates five days prior to the meeting with Kredietbank S.A. Luxembourgeoise, Conservation titres, 43 boulevard Royal, L-2955 Luxembourg.

Shareholders who cannot personally attend the meeting are requested to use the prescribed form of proxy (available at the registered office of the Company). Proxies should be returned at the latest on the day preceding the meeting to the Company, c/o Fleming Fund Management (Luxembourg) S.A., L-2888 Luxembourg or to the fax number +352 3410 2107.

A. H. Doggart
for Fleming Fund Management (Luxembourg) S.A.,
Liquidator of The Japanese Warrant Fund

FLEMINGS

هكذا من الاصل

No settlement to BA and AA alliance terms

By Emma Tucker in Brussels and Charis Gresser in London

Mrs Margaret Beckett, the UK trade and industry secretary, and Mr Karel Van Miert, the European competition commissioner, yesterday failed to settle long-standing disagreements about the controversial transatlantic alliance between British Airways and American Airlines.

During discussions in Brussels, the issue of how many slots the powerful alliance would control at London's Heathrow airport emerged as the most serious sticking point. But the two sides agreed to have further discussions this week.

Brussels is understood to be taking a much tougher line on how many slots should be ceded in return for approval of the deal. The two sides are also at loggerheads over the issue of flight frequencies.

"It is quite clear there are big differences on certain points but there is no reason not to expect a solution," said a Commission official.

However, it is now highly unlikely that the Commission will be able to give its verdict on the deal – announced more than year ago – before the summer break.

Mr Robert Ayling, chief executive of BA, who will meet Mr Van Miert on Friday, has said he will call off the deal if regulatory approval is not given by November.

Yesterday, a Commission official said he expected Brussels to rule before then. However, the US competition authorities have also expressed doubts about the proposed alliance and could also delay approval.

Some industry observers say that a collapse of the deal would not be a disaster for BA which could then consider a transatlantic partnership with another airline, such as Delta Airlines. Both BA and AA are understood to be looking at other possible partners.

The Commission has been conducting its probe alongside a UK investigation. Apart from the Heathrow slots, Brussels has focused on the fact that the market share of the allied companies would be between 74 per cent and 100 per cent on 17 routes between the UK and the US.

During the meeting yesterday, which the Department of Trade and Industry described as "constructive", Mrs Beckett and Mr Van Miert discussed the proposed joint venture between P&O and Stena Line, two leading ferry services that compete with the Channel Tunnel. The British competition authorities are understood to be putting pressure on Brussels to speed up its decision.

Telecoms group pays £445m for BellSouth's 24.5% stake

C&W lifts Optus holding

By Alan Cane

Cable and Wireless, the UK-based telecommunications group, yesterday agreed to pay £445m ($734m) in cash to increase its stake in Optus Communications, Australia's second largest operator, to 49 per cent.

The deal gives it management control and the option to raise its stake to more than 50 per cent when it chooses. It strengthens the UK group's position in the Asia Pacific region where it already has a stake in Singapore's second mobile operator and a majority holding in Hongkong Telecom.

The deal met a generally favourable response in the market, and C&W's shares rose 18p to 570½p.

Mr Richard Brown, C&W chief executive said: "We have decided to dig our roots deeper in Australia where we can offer our customers a full range of integrated services".

C&W is buying the 24.5 per cent stake from BellSouth, the US operator at an average price of A$1.89 a share. It paid A$1 a share when it took a similar stake in the Australian operator six years ago.

Mr Robert Lerwill, C&W chief financial officer, said it was a satisfactory price given the way the company had developed over the past six years and the advantage of management control. It will be run by Mr Peter Howell Davies, formerly managing director of Mercury Communications.

Optus comprises a communications arm which made pre-tax profits of £27m on revenues of £883m in the year to June 9, 1996 and a cable television group which is lossmaking. It is the chief competitor to Telstra, the Australian national operator with a 38 per cent share of the mobile market and an 18 per cent share of the long distance business.

The aim is to create an integrated fixed wire, mobile and cable television group similar to CWC in the UK which combines Mercury with three cable companies.

Lex, Page 14

LEX COMMENT

Royal Mail

It would be a delicious irony if the Royal Mail – a privatisation too far for the Conservatives – was finally sold off by Labour instead. The political sensitivities are obvious, but so is the commercial logic. And a glance at yesterday's full-year results suggests the proceeds could be tempting too. Last year Royal Mail threw off £252m in spare cash, after tax. Suppose it paid out two-thirds of that as a dividend, and the market valued the stock on the same yield as Railtrack. The company would be worth nearly £5bn. But do not be deceived. Royal Mail's plumpness is artificial. Last year it generated a staggering 28 per cent return on capital – enough to make most companies, let alone any regulated monopoly, weep. Such profits are not the fruit of managerial genius; they merely show that stamps are priced too high. Needless to say, this suits the government. It simply extracts Royal Mail's surplus returns – £285m in cash last year, as well as £216m in corporation tax – through the back door.

At first sight, this looks a killer objection to privatisation. No regulator would allow such spectacular returns to persist. But therein, perhaps, lies the potential for a political trick. A really ingenious government would announce its intention to privatise and simultaneously to chop Royal Mail's returns to reasonable levels. Who knows? With a smart and very visible drop in the price of stamps, it could be the most vote-winning privatisation ever.

RESULTS

	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
AerTech Intl Φ .... Yr to Mar 31	2.17	(1.75)	1.13L♠	(0.362L)	8.1L	(2.7L)	-	-	-	-	-
Birkby .... Yr to Mar 31 ✠	61.1	(56.2)	10.1♥	(8.44)	15.4	(13.8)	6.2	Oct 10	5.8	8.5	8
Bula Mining .... Yr to June 30 1996	0.044	(0.396)	0.815L♥	(0.628L♠)	0.33L	(0.26L)	-	-	-	-	-
Crest Nicholson .... 6 mths to Apr 30	152.8	(132.4)	7.21	(2.21)	3.8	(0.42)	1.25	Oct 1	0.6	-	2.5
Delaney .... Yr to Dec 31	21.8	(18.9)	0.739L	(0.511L)	0.7L	(0.5L)	nil	-	nil	nil	nil
Dudley Jenkins .... Yr to Apr 30	21.5	(19.5)	2.65	(1.39)	12.22†	(7.27)	3.25	Oct 3	2.431	4.75	3.586
Gall Thomson Φ .... Yr to Mar 31	5.81	(5.92)	2.07♠	(1.33♠)	4.4†	(2.9)	1.25	July 31	-	1.25	-
Gibbon .... Yr to Mar 31	32.3	(29)	1.93	(2.41)	11.4†	(15.6)	4.5	Oct 1	4.5	7	7
Hadleigh .... Yr to Mar 28	31.3	(28)	2.13♠	(1.81)	18.9	(17.4)	4.75	Oct 1	4	7	5.75
Lonsdale .... Yr to Mar 31	1.66	(0.894)	0.63L♠	(0.437L♠)	1L	(2.2L)	-	-	-	-	-
MFI Furniture .... Yr to Apr 26	845.6	(766.2)	70.3	(58.1)	8.24	(8.11)	3.1	Oct 3	2.9	4.8	4.4
UK Land .... Yr to Mar 31	2.87□	(2.66□)	1.25♥	(6.35♥)	13‡	(67)	3	Oct 3	2♦	3	2♦

Investment Trusts	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
M&G High Income ..... 11 wks to May 31	10.94	(-)	0.005	(-)	0.99	(-)	0.96	Aug 25	-	-	-
M&G Second Dual .... Yr to May 31	747.23	(725.45)	3.08	(2.77)	30.83	(27.7)	12.75	Aug 1	12.15	30.85	27.75

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ΦAim stock. ✠Pro forma. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. □Gross rents. ‡On reduced capital. ♦Excludes 2p special.

EMI pays up to $382m for Motown rights

By Alice Rawsthorn

The publishing rights to *I Heard It Through The Grapevine*, *Baby Love* and thousands of other classic soul songs owned by Mr Berry Gordy, founder of Motown Records, have been bought by the EMI Group in a deal worth up to $382m.

EMI, the UK group which is the world's largest music publisher, has agreed terms to acquire 50 per cent of Jobete Music and Stone Diamond Music, owned by Mr Gordy and his sister, Ms Esther Edwards, for $132m.

If they decide to sell their remaining shares after five years of the deal's completion, EMI has agreed to purchase them for a performance-related sum worth up to $250m.

EMI will also take over the administration of the Gordy publishing rights in North America. It already manages them everywhere else. Sir Colin Southgate, chairman of EMI, hailed the deal as "a great coup" with "tremendous potential".

Jobete, founded by Mr Gordy in 1959 to handle publishing rights for music recorded by Motown artists including Stevie Wonder, Marvin Gaye, Jackson Five and the Supremes, was one of the few prominent catalogues to remain in private hands.

Publishing, which is the business of collecting royalties whenever songs are recorded, performed or broadcast, is one of the fastest-growing and most profitable parts of the music industry. Most independently-owned catalogues have already been acquired by the multinational music groups such as EMI, Sony and PolyGram.

Mr Gordy sold Motown Records to PolyGram for $301m in 1993, but held on to his publishing interests. There have since been various attempts to acquire them. Sir Colin admitted that EMI had "been to the altar with Berry at least twice before", but Mr Gordy finally decided to sell earlier this year.

Sir Colin said the Gordy catalogue will be absorbed by EMI's existing North American music publishing busines, which will be "more aggressive" at selling the rights for film and television soundtracks, advertising and for recording.

The expansion in publishing comes at a time when EMI is rationalising its North American recording interests.

Rothschild's Swiss parent rises 66%

By John Gapper

Pre-tax profits at Rothschild Continuation Holdings, the Swiss parent of the merchant banking group, increased by 66 per cent from SFr108m to SFr179m ($125m) in the year to March 31, despite a muted performance in the UK.

Flat dealing income because of poor trading conditions in world copper markets held back operating income at NM Rothschild & Sons, the UK merchant banking arm, to £124m (£120m). Overall dealing profits were SFr49m (SFr45m).

Operating income rose from SFr552m to SFr839m. The figures were inflated by a fall in the value of the Swiss Franc during the year. Most of the group's operations, based in 30 countries, earn income in other currencies.

Costs rose 47 per cent from SFr418m to SFr616m, with half of the rise coming from currency movements. The bank also paid sharply increased profit-related bonuses, and invested a large amount in upgrading its computer technology.

Sir Evelyn de Rothschild, chairman, said it was attempting to operate more as a single entity. This was both to wield its capital more effectively and manage global operations such as investment banking.

Sir Evelyn said that Rothschild's joint venture with ABN Amro, the Dutch bank, to underwrite share issues, had worked successfully in its first year. He emphasised that Rothschild, which is largely owned by family members, intended to remain independent.

Asset management, which was reorganised as a single entity last year, achieved good results in UK pension fund business. It has gained £1.7bn of assets under management since the year-end.

After paying dividends of SFr17m (SFr14m), the group retained a profit of SFr94m (SFr155m). It made a one-off gain of SFr129m in 1996 from the sale of its stake in Smith New Court, the stockbroker, to Merrill Lynch.

The group disclosed the results of Rothschild Continuation for the first time, partly to reassure customers of its bullion arm about its capital resources.

Bank Austria

M & A

March 1997

Bank Austria

Bank Austria Aktiengesellschaft

has acquired 69.45% of the voting stock of

Creditanstalt-Bankverein

from the

Republic of Austria

for a total consideration of

ATS 17,160,556,560

The undersigned acted as sole financial adviser to Bank Austria in this acquisition and related financing.

Salomon Brothers

Bold Vision

Integrated Solution

First Class Execution

Debt

All of these securities having been sold, this announcement appears as a matter of record only.

February 1997

U.S. $700,000,000

Bank Austria

Bank Austria Aktiengesellschaft

7.25% Subordinated Notes Due 2017

The undersigned acted as lead manager and sole bookrunner.

Salomon Brothers

Equity

All of these securities having been sold, this announcement appears as a matter of record only.

June 1997

ATS 3,000,000,000

Bank Austria

Bank Austria Aktiengesellschaft

Primary Preferred Shares

The undersigned acted as lead manager and sole bookrunner.

Salomon Brothers

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Salomon Brothers

مكبرة من الأصل

INTERNATIONAL CAPITAL MARKETS

US Treasury gains pull Europe higher

GOVERNMENT BONDS

By John Labate in New York and Samer Iskandar in London

US Treasury investors bid up prices yesterday following releases of economic data, as the Federal Reserve Open Market Committee began its two-day meeting to determine interest rate policy.

By early afternoon, the benchmark 30-year bond was up 22/32 at 98 31/32, sending the yield down to 6.734 per cent. The two-year note's price rose 1/32 to 99 15/32, its yield falling slightly to 6.017 per cent. The ten-year note rose 7/16 at 101 3/16, yielding 6.433 per cent.

Among the welcome news to traders was a weaker-than-expected rise in a nationwide manufacturing survey. The National Association of Purchasing Management index rose to 55.7 in June, below recent regional manufacturing reports for the month. "The bond market breathed a sigh of relief that the national number wasn't as strong as some of the regionals," said Mr Patrick Dimick, analyst at UBS Securities in New York.

Other statistics were construction spending, which fell 1.8 per cent in May, and the leading economic indicators by the Conference Board, which rose 0.3 per cent in May.

Most European markets were pulled up in the afternoon by rising US treasuries.

FRENCH OATs outperformed German bunds. The September notional future settled at 129.42, up 0.20, before rising further in after-hours trading on Globex to reach a high of 129.60.

In the cash market the 10-year benchmark OAT gained 0.38 at 99.67. The 10-year yield spread of bunds over OATs widened by 1 basis point to 13 points. Traders said that although the market's rise was mainly US-driven, a strong stock market also instilled some bullish sentiment.

GERMAN BUNDS also ended the session higher. In London, the September bund future rose 0.39 to settle at 101.88. Trading was unaffected by the sale of the first tranche of new 30-year bunds. Analysts said the widely-expected new supply had already been priced into the market.

The fact the purchasing managers' index had fallen to 56.83 in June, from 57.77 in May, was also widely ignored, as was a slight rise in the price component of the index. "At this juncture, the recovery is not strong enough to allow any significant rise in prices," said Mr David Brown, chief European economist at Bear Stearns in London.

SPANISH BONOS barely managed to reverse their losses late in the day, as the market rose in line with other European bonds. In Barcelona, the September bono future settled at 116.62, up 0.04, after reaching a low of 116.22 earlier in the day. In the cash market the 10-year benchmark bono closed 0.09 lower at 106.82, its yield spread over bunds widening by 6 basis points to 71 points. Traders said new supply had weighed on the market.

ITALIAN BTPs followed other European markets. In London the September BTP future rose 0.40 to close at 134.40, while in the cash market the 10-year benchmark BTP closed 0.23 up at 100.33, its yield spread over bunds unchanged at 115 basis points.

Gilts buoyant on prospect of fiscal tightening

UK gilts showed a healthy performance yesterday as traders anticipated fiscal tightening in today's Budget would reduce pressures on the Bank of England to raise interest rates, writes Samer Iskandar.

The September long gilt future ended the session 11/32 higher at 114⅝, before rising further in after-hours trading.

In the cash market the 10-year benchmark gilt rose 7/16 to 101 23/32, its yield spread over German bunds tightening by 3 basis points to 147 points.

Analysts said recent leaks about the Budget's possible contents were promising.

"There is a consensus that the Budget will be bond-friendly," said Mr Andrew Roberts, a gilt analyst at UBS. "If the leaks prove to be correct, then the Budget is set to be positive for the market."

MMS, the economic research arm of Standard & Poor's, the US credit rating agency, expected the chancellor to "tighten fiscal policy by £6.5bn, which should be more than enough to take the emphasis off monetary policy".

UBS said it had calculated every £2bn of fiscal tightening affecting the consumer would reduce the need to raise rates by between 30 basis points and 35 basis points.

"A tight Budget would take some of the pressure off the Bank of England," said Mr Roberts. "The consumer sector is red hot. The chancellor has to stop it from becoming white hot."

Some analysts, however, cautioned that the market might have become too bullish.

CAPITAL MARKETS NEWS DIGEST

First foreign fund for Saudi Arabia

The Saudi American Bank, a local bank 30 per cent owned by Citibank, of the US, said yesterday it would launch the country's first foreign equity investment fund. The closed-end fund – known as Saif – will be launched in August. It will have a subscription of between $50m and $250m, and will mark the opening of the Saudi stock exchange to foreign investment. Officials at ING Barings, placing agent for the London-listed fund, say the launch follows the recent decision by the Saudi government to liberalise capital markets.

With a capitalisation of $48.7bn, Saudi Arabia's stock market is twice the size of the Egyptian stock market – the second largest in the Middle East and north Africa region. The market, which is led by the banking sector, has 70 listed companies. Another 60 closed-end, or family-controlled, companies are expected to issue equity in the near future. Saudi Arabia also committed itself to gradual liberalisation of capital markets when it became a member of the World Trade Organisation in 1996.

Saif will operate under London Stock Exchange regulations, which prevent it from holding more than 5 per cent of a company's issued capital and mean that only 20 per cent of the fund's capital can be invested in any one security. *Edward Luce*

Japan best performer in June

Japanese government bonds were the best performing market in J.P.Morgan's government bond index in June, with a performance of 3.19 per cent in dollar terms. This was mainly due to the strength of the yen. In local currency terms, the performance was only 1.33 per cent. Fears of monetary tightening capped UK gilts' returns at 1.08 per cent, but sterling's appreciation boosted the performance to 2.83 per cent in dollar terms. The Global Bond Index gained 1.37 per cent in local currency terms, as bond yields fell worldwide. "Bond markets rallied on a perceived delay in monetary tightening, as reported growth numbers were relatively low and inflation figures appeared benign," J.P.Morgan said. *Samer Iskandar*

Bund future tops DTB trade

The bund future has overtaken options on the Dax index to become the most actively traded product on DTB, the derivatives arm of Deutsche Börse. Bund futures activity soared to 2,681,280 lots in June, up 140 per cent from June 1996, while trading in Dax options rose 71 per cent to 2,572,824 contracts. With a record 51.4m futures and options changing hands since the beginning of the year, up 75 per cent year-on-year, DTB said the 100m contract barrier was "well within reach for the year as a whole". DTB also said its bund contract was gaining market share from the London International Financial Futures Exchange. Although Liffe volumes have not yet been released, DTB said it was confident it commanded 40 per cent of the total market for bund futures. *Samer Iskandar*

Spotlight on Croatia ahead of Fed meeting

INTERNATIONAL BONDS

By Edward Luce

The eurobond market has slowed dramatically this week in the build-up to the US Federal Reserve meeting. Apart from Croatia's debut in the D-Mark sector and a couple of medium-size bank issues, the market remained on hold yesterday before today's decision in the US.

An analyst at Deutsche Morgan Grenfell in London said the volume of dollar bond issuance last month broke all records at $79.6bn. The proportion of all eurobonds and global bonds denominated in US dollars surged to 69 per cent up from the 53 per cent average for the year. This is a big rise on the 47 per cent recorded last year.

"The market is basically taking a pause for breath after last month's enormous volume," the analyst said. "Most borrowers got their issues in before the FOMC meeting and the release of US employment figures [on Friday]."

The Republic of Croatia issued its first D-Mark denominated bond with a DM300m issue. The seven-year bond, which was priced to yield 95 basis points over German government bonds, was considered quite expensive by some investors. But an official at Credit Suisse First Boston, joint manager with Deutsche Morgan Grenfell, said the issue benefited from rarity value in the German market.

Croatia made its debut in the euromarkets earlier this year with a five-year dollar bond priced at 80 basis points over Treasuries. The paper subsequently widened to 120 basis points over Treasuries after the 25-point rise in US interest rates. It is now trading at a spread of around 100 basis points in the secondary markets.

BANCAJA INTERNATIONAL CAPITAL, part of Spain's fourth largest banking group, issued its debut eurobond yesterday totalling $200m. The 10-year floater, which was priced to yield 50 basis points ove: three-month London Inter-Bank Offered Rate, was distributed to mostly European institutional investors according to an official at Merrill Lynch, joint manager with Salomon Brothers. It tightened to a spread of 49 basis points in secondary trading.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Bancaja Intl Capital(a)‡	200	(a1)	99.57R	Jul 2007	0.40R	-	Merrill Lynch Intl
Gradiente Electronica(b)	100	9.625#	99.35R	Jul 2005	1.00R	+325(6¼%-02)	CSFB
Marvel International(c)ф	86.5	3.00	100.00	Jul 2000	2.25	-	Daiwa Europe
D-MARKS							
Compagnie Bancaire‡	500	(d)	99.98R	Jul 2004	0.175R	-	Deutsche Morgan Grenfell
Merrill Lynch & Co	400	6.25	98.90R	Jul 2009	0.40R	+56(6%Jul07)	Merrill Lynch Cap Mkts
Republic of Croatia	300	6.125	99.584R	Jul 2004	0.625R	+95(6%Jul04)	CSFB/Deutsche MG
GUILDERS							
Kredietbank Intl Finance(e)	200	6.25	99.86R	undated	0.75R	+69(5¾Feb07)	Kredietbank/Rabobank
EUROS							
Crédit Local de France(f,l)	100	5.25	101.85	Dec 2002	1.875	-	BIL
DANISH KRONER							
DSL Finance	400	(g,l)	101.735	Dec 2004	1.875	-	Generale Bank
World Bank(l)	400	5.75	101.928	Dec 2004	1.875	-	ABN Amro/BBL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. фWith equity warrants. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from Jul 02 at par. a1) 3-mth Libor +40bp to Jul 02, then +90bp. b) Callable & puttable on 11/7/02 at 98.90%. c) Denom: $10,000 + 2 wrts exercisable into shares of Sumitomo Heavy Industry Co at Y435. FX: 115.60Y/$. d) 3-mth Libor +12½bp. e) Callable on 23/7/07 & every 10 yrs at par. If not called coupn resets at 250bp over 10yr DSLs. f) Payments in Ecu prior to Emu. g) 5% to 29/12/01, then 7¼%. l) Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/07	121.7971	+0.650	6.99	7.05	7.68
Austria		5.750	04/07	99.4200	+0.380	5.83	5.85	5.92
Belgium		6.250	03/07	103.6500	+0.290	5.74	5.83	5.99
Canada *		7.250	06/07	106.7800	+0.180	6.32	6.14	6.47
Denmark		7.000	06/07	105.2600	+0.210	6.29	6.45	6.43
France	BTAN	4.750	03/02	100.9561	+0.210	4.52	4.59	4.76
	OAT	5.500	04/07	99.6700	+0.380	5.54	5.60	5.76
Germany Bund		6.000	07/07	102.5900	+0.400	5.65	5.69	5.91
Ireland		8.000	08/06	110.3000	+0.610	6.47	6.51	6.73
Italy		6.750	02/07	100.3300	+0.230	6.70†	6.80	7.15
Japan	No 148	5.600	06/02	118.2603	+0.230	1.63	1.64	1.79
	No 182	3.000	09/05	104.6927	+0.390	2.32	2.34	2.55
Netherlands		5.750	02/07	101.5400	+0.340	5.53	5.57	5.80
Portugal		9.500	02/06	121.0000	-	6.27	6.25	6.42
Spain		7.350	03/07	106.8200	-0.090	6.37	6.33	6.59
Sweden		8.000	08/07	109.9971	+0.230	6.61	6.69	7.02
UK Gilts		7.000	06/02	100-00	+13/32	7.00	7.10	7.12
		7.250	12/07	101-23	+18/32	7.01	7.13	7.28
		9.000	10/08	114-29	+22/32	7.06	7.19	7.35
US Treasury *		6.625	05/07	101-08	+19/32	6.45	6.41	6.74
		6.625	02/27	98-14	+27/32	6.75	6.68	6.98
ECU (French Govt)		7.000	04/06	107.9100	+0.330	5.82	5.87	6.05

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.03
Prime rate	8½	Two month	-	Three year	6.16
Broker loan rate	7¼	Three month	5.24	Five year	6.34
Fed.funds	5⅞	Six month	5.33	10-year	6.45
Fed.funds at intervention	-	One year	5.64	30-year	6.75

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	129.18	129.42	+0.20	129.42	129.02	16,667	203,256
Dec	97.78	98.02	+0.20	97.78	97.76	102	2,991
Mar	97.18	97.42	+0.20	97.18	97.18	2	-

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
125	-	4.46	-	0.01	0.06	-
126	-	3.54	-	0.04	0.14	-
127	-	2.66	-	0.09	0.25	-
128	-	1.85	-	0.21	0.44	-
129	0.87	1.16	-	0.45	0.75	-

Est. vol. total, Calls 7,548 Puts 11,264. Previous day's open int., Calls 74,585 Puts 118,151.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	101.52	101.88	+0.39	101.92	101.43	162856	252862
Dec	100.63	100.97	+0.39	100.63	100.56	1100	8423

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
10150	0.71	1.00	0.78	1.10	0.33	0.62	1.31	1.83
10200	0.42	0.71	0.57	0.88	0.54	0.83	1.60	1.91
10250	0.22	0.48	0.40	0.70	0.84	1.10	1.93	2.23

Est. vol. total, Calls 13863 Puts 16979. Previous day's open int., Calls 137448 Puts 177120

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	134.15	134.40	+0.40	134.55	133.77	50179	99604
Dec	106.50	106.84	+0.39	106.70	106.50	320	270

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
8000		26.84		0
8050		26.34		0
8100		25.84		0

Est. vol. total, Calls 1638 Puts 2416. Previous day's open int., Calls 58081 Puts 83102

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	116.60	116.62	+0.04	116.68	116.22	80,046	92,830
Dec	-	99.99	-	-	100.05	-	237

UK

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114-01	114-20	+0-22	114-23	113-29	62203	164986
Dec		114-06	+0-22			0	0

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
114	1-09	1-34	1-35	2-03	0-33	0-58	1-23	1-55
115	0-38	1-00	1-06	1-37	0-62	1-24	1-58	2-25
116	0-17	0-36	0-47	1-12	1-41	1-62	2-35	3-00

Est. vol. total, Calls 5316 Puts 1404. Previous day's open int., Calls 31591 Puts 22219

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	96.08	96.16	+0.06	96.12	95.94	553	5,041

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	111-04	111-01	-0-01	111-07	110-30	246,050	420,440
Dec	110-23	110-22	+0-01	110-25	110-16	348	25,582
Mar	110-13	110-15	-	110-13	110-13	147	2,226

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	124.36			124.53	124.36	1918	na
Dec	123.73			123.85	123.73	240	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Jul 1	Day's change %	Mon Jun 30	Accrued interest	xd adj. ytd		Low coupon yield Jul 1	Jun 30	Yr. ago	Medium coupon yield Jul 1	Jun 30	Yr. ago	High coupon yield Jul 1	Jun 30	Yr. ago
1 Up to 5 years (20)	120.12	0.14	119.95	2.44	5.38	5 yrs	7.00	7.07	7.31	7.06	7.12	7.36	7.12	7.18	7.43
2 5-15 years (20)	153.12	0.48	152.39	2.48	5.93	15 yrs	7.00	7.08	8.13	7.07	7.15	8.13	7.13	7.20	8.23
3 Over 15 years (6)	181.72	0.85	180.18	5.91	5.02	20 yrs	7.00	7.08	8.24	7.07	7.15	8.22	7.13	7.20	8.30
4 Irredeemables (5)	210.66	1.05	208.47	2.20	7.34	Irred.†	7.16	7.23	8.33						
5 All stocks (51)	147.56	0.44	146.91	3.11	5.88										

Index-linked							Inflation 5% Jul 1	Jun 30	Yr. ago	Inflation 10% Jul 1	Jun 30	Yr. ago
6 Up to 5 years (2)	205.36	0.13	205.08	1.52	3.03	Up to 5 yrs	3.57	3.60	2.88	2.91	2.94	1.16
7 Over 5 years (10)	198.89	0.46	197.99	1.85	2.86	Over 5 yrs	3.80	3.83	3.62	3.39	3.43	3.61
8 All stocks (12)	198.50	0.42	197.66	1.81	2.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jul 1	Jun 30	Jun 27	Jun 26	Jun 25	Yr ago	High*	Low*
Govt. Secs. (UK)	96.98	96.51	95.98	96.46	96.49	93.00	97.51	93.31
Fixed Interest	123.89	123.68	124.27	123.86	123.77	112.52	124.27	115.32

Gilt Edged Activity Indices

	Jun 30	Jun 27	Jun 26	Jun 25	Jun 24
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

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UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts* (Lives up to Five Years)						
Treas Cnv 7pc 1997‡‡	7.00	6.46	100⅛	----	101⅛	100⅛
Treas 8¾pc 1997‡‡	8.72	6.45	100⅜	----	107⅜	100⅜
Exch 15pc 1997	14.62	6.69	102⅝	-⅛	111⅛	102⅝
Exch 9¾pc 1998	9.60	6.74	101⅝	----	105⅛	100⅞
Treas 7¼pc 1998‡‡	7.23	6.83	100⅛	+⅛	108⅜	100⅛
[illegible]						
Five to Fifteen Years						
Conv 9½pc 2002	8.64	7.11	109 27/32	+⅜	110 15/32	108⅛
Treas 9¾pc 2002	8.78	7.09	111⅛	+⅜	122¼	109½
Exch 9pc 2002	8.31	7.12	108⅛	+⅜	109¼	106⅞
Conv 9¾pc 2003	8.67	7.11	112⅜	+⅜	113⅝	110⅜
Treas 8pc 2003‡‡	7.65	7.04	104⅝	+⅜	105⅜	101⅛
Treas 13¾pc 2000-3	11.64	7.09	118⅛	+⅛	119⅜	117⅜
Treas 10pc 2003	8.75	7.09	114⅜	+⅜	116⅛	111⅞
Treas 11½pc 2001-4	10.06	7.10	114⅛	+⅛	121⅝	113⅝
Treas 10pc 2004	8.65	7.11	116⅜	+⅜	116⅞	113

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Funding 3½pc 1999-4	4.03	5.85	86⅞	+⅛	87⅛	80⅛
Conv 9½pc 2004	8.35	7.05	113⅜	+⅛	114⅜	109⅜
Treas 6¾pc 2004‡‡	6.86	7.00	98⅜	+⅛	99⅛	93⅛
Conv 9½pc 2005	8.30	7.05	114⅜	+⅜	122⅜	109⅜
Exch 10½pc 2005	8.67	7.09	121⅛	+⅜	121⅜	117⅛
Treas 12½pc 2003-5	9.82	7.10	127⅛	+⅛	129⅜	124⅜
[illegible]						
Treas 8¾pc 2017‡‡	7.44	7.08	117⅜	+1	117⅞	109⅛
Exch 12pc 2013-17	8.17	7.14	146⅜	+1⅛	146⅜	138⅛
Treas 8pc 2021‡‡	7.20	7.02	111⅛	+1⅛	111⅛	98⅜
Undated						
Consols 4pc	7.36	-	54⅜	+⅛	54⅜	47⅛
War Loan 3½pc‡‡	7.10	-	49⅜	+⅜	49⅜	42⅛
Conv 3½pc '61 Aft	5.30	-	66⅛	+⅜	66⅛	58⅜
Treas 3pc '66 Aft	7.49	-	40⅛	+⅛	40⅛	35⅛
Consols 2½pc	7.13	-	35⅛xd	+⅛	35⅛	30⅛
Treas. 2½pc	7.25	-	34⅜	+⅜	34⅜	28⅜

Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
Index-Linked (b)						
4⅜pc '98‡‡ (135.6)	-	2.80	114⅛	+⅛	114⅞	113⅛
2½pc '99	2.01	3.13	182⅜	+⅛	182⅜	179⅛
2½pc '01 (78.3)	2.90	3.58	186⅜	+⅜	187⅜	180⅜
2½pc '03 (78.8)	3.11	3.59	182⅜	+⅛	184⅜	175⅛
4⅜pc '04‡‡ (135.6)	3.15	3.57	118⅛	+⅜	120⅜	114⅜
[illegible]						

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Asian Dev 10¼pc 2009	8.39	7.39	122⅛	----	123⅛	114⅛
B'ham 11½pc 2012	8.76	7.58	131½	----	132½	122¼
Leeds 13½pc 2006	9.82	-	137½	----	139½	131½
Liverpool 3½pc Irred.	8.33	-	42xd	----	45	37½
LCC 3pc '20 Aft	8.11	-	37	----	39	32⅝
Manchester 11½pc 2007	9.08	7.78	128½	----	127½	120
Met. Wtr. 3pc 'B'	3.66	6.55	82	----	83	75½
N'wide Anglia 3⅞pc 2021	-	4.03	144⅛xd	----	147¼	138½
4⅝pc IL 2024	-	4.41	139⅝	----	142⅜	133

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on July 1

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	99⅛	99⅜	+¼	6.68
ABN Amro Bank 7¼ 05	1000	101½	101¾	+⅜	7.12
African Dev Bk 7⅜ 23	500	100½	100⅞	+⅝	7.33
Alberta Province 7⅝ 98	1000	101¼	101⅞		6.19
Argentina 11⅜ 17	2000				
Asian Dev Bank 6¼ 05	750	97½	97¾	+¼	6.75
Austria 8½ 00	400	104⅜	104⅞	+⅛	6.41
[illegible]					
Finland 7½ 00	3000	108⅝	108¾		3.90
Helaba Intl 5¾ 01	1500	104⅝	104¾	+⅛	4.56
KfW Intl Finance 6¼ 03	2250	103⅞	105	+¼	5.13
LKB Baden-Wuertt 6½ 08	2250	104¾	104⅞	+⅜	5.50
Ontario 6¾ 04	1500	105	105⅛	+¼	5.32

	Issued	Bid	Offer	Chg	Yield
Spain 7¼ 03	4000	111⅛	111⅛	+⅛	4.95
Volkswagen Intl Fin 7 03	1000	108½	108¾		5.26
World Bank 5⅞ 03	3000	104⅜	104⅞	+¼	4.98
World Bank 6⅛ 02	3000	106⅛	106½	+¼	4.72
World Bank 7⅛ 05	3000	110½	110½	+¼	5.43
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	43⅜	44⅛	-⅛	4.59
[illegible]					
Nat Australia Bank 6¾ 99 A$	250	100⅝	101⅛	+¼	5.69
NSW Treasury Zero 0 20 A$	1000	19⅛	19⅞	+¼	7.33
R & I Bank 7¾ 03 A$	125	104½	104⅞	+¼	6.80
State Bk NSW 9 02 A$	300	109⅜	109¾	+¼	6.79
Sth Aust Govt Fin 9 02 A$	150	109¼	109⅝	+¼	6.82
World Bank 9¼ 00 A$	100	103⅝	103⅞	-1	6.90

	Issued	Bid	Offer	Chg	Yield
Abbey Natl Treasury 8 03 £	1000	102¼	102½	+⅛	7.49
British Land 8⅞ 23 £	150	105⅞	109¼	+¼	8.49
Denmark 6¾ 98 £	800	99½	99⅝	+⅛	7.19
Depfa Finance 7⅛ 03 £	500	98	98¼	+⅛	7.52
EIB 8 03 £	1000	103⅜	103⅝	+¼	7.28
Finland 7 00 £	500	99¾	99⅞	+⅛	7.07
Glaxo Wellcome 8¾ 05 £	500	107⅜	107½	+½	7.52
HSBC Holdings 11.69 02 £	153	116⅜	116⅝	+⅛	7.57
[illegible]					

CONVERTIBLE BONDS	Issued	Conv. Price	Bid	Offer	Prem.
[illegible]					
Sapporo 1⅜ 00 Y	40000	1059.4	100¾	101½	+12.12
Sumitomo Bank 3½ 04	300	3606.9	92¼	93¼	+59.39
Sun Alliance 7¼ 08 £	155	3.9	119⅝	120⅝	+27.12
Transatlantic Hldgs 5½ 09 £	250	5.05	98	99	+2.04

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

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هكذا من الاصل

CURRENCIES AND MONEY

Pound dips on pre-Budget nerves

MARKETS REPORT

By Simon Kuper

The pound fell yesterday on profit taking ahead of today's UK Budget.

Sterling, which had risen 7 pfennigs against the D-Mark in the last 10 days, was at DM2.892 in late trading yesterday, 1.8 pfennigs below its overnight high.

But trade was subdued ahead of the Budget and today's close of the US Federal Reserve's Open Market committee meeting. Few expect the Fed to raise rates.

The pound initially barely suffered from a UK June purchasing managers' index that showed weak price pressures and some damage to exports from the strong pound. But the market paid more attention to the index in the afternoon, as the Budget loomed larger.

The pound fell through resistance at $1.66 against the dollar, closing in London 0.6 cents down on the day at $1.658. The Irish punt rose 0.9p against sterling to £0.916.

The lira gained another L2.6 against the D-Mark to L973.8, and is approaching its unofficial 2.25 per cent fluctuation limit within the European exchange-rate mechanism around L968.

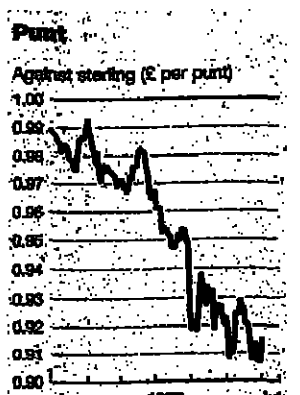
The dollar dipped on an unexpectedly weak National Association of Purchasing Management index for June. But it bounced in late trading to DM1.745 against the D-Mark and Y114.8 against the yen, slightly above Monday's levels. Mr Nick Parsons, currency strategist at Paribas Capital Markets in London, noted that once again the dollar was struggling above DM1.74.

■ Pound in New York

Jul 1	—Latest—	– Prev. close –
£ spot	1.6575	1.6650
1 mth	1.6561	1.6635
3 mth	1.6530	1.6605
1 yr	1.6400	1.6470

■ How will the Labour government's first Budget affect sterling? Currency strategists said the key question was the level of tax rises. They said that a net fiscal tightening of more than £4bn-£5bn could dent the pound, as it would reduce pressure on the Bank of England to raise interest rates. Mr Steve Hannah, chief economist at IBJ International in London, said the market would regard a sharp tightening "partly as a deliberate attempt to weaken sterling".

■ The pound is hurting UK exports, as today's PMI survey showed, but the mystery is how little damage it has done. After all, sterling has risen by a fifth since last August, and we are always being told about the new competitive global marketplace. Mr Parsons has studied recent UK trade data to find out why exports have not fared worse.



He says that although the value of UK exports has fallen, export volumes have been stable. This means exporters' profit margins have shrunk. Hence, Mr Parsons says, the profit warnings on the London stock market while trade data have for long remained respectable.

Yet this is set to change. Mr Parsons says that most exporters are still delivering goods under contracts signed months ago. Their foreign trade partners, in other words, have to buy the large volumes of UK goods they agreed to take at the time. That is creating the present "J-Curve" effect. But when the current round of export contracts comes up for renegotiation, volumes will suffer. Perhaps we saw the first sign of this in the April trade data, which showed a marked decline. And last month the pound gained almost another 5 per cent against the D-Mark.

Mr Parsons is publishing his research under the title "The Icarus Currency". Yes, he thinks the pound will fall.

■ OTHER CURRENCIES

Jul 1	£	$
Czech Rp	53.4277 - 53.5329	32.2300 - 32.2740
Hungary	308.973 - 310.243	186.990 - 187.040
Iran	4976.10 - 4973.10	3000.00 - 3000.00
Kuwait	0.5015 - 0.5028	0.3025 - 0.3030
Poland	5.4290 - 5.4405	3.2750 - 3.2800
Russia	9588.79 - 9598.90	5785.00 - 5787.00
U.A.E.	6.0886 - 6.0927	3.6728 - 3.6732

■ The UK yield curve implied by the money markets is remarkably flat. The short sterling futures market, which effectively bets on future UK base rates, expects rates to reach 7.25 per cent by March 1998, and then to freeze there until at least June 2000. Those two contracts now trade just 2 basis points apart.

City economists say there is one-way risk in this market – that rates will rise by more than expected. After all, almost every economist in Britain expects base rates to reach at least 7 per cent in coming months. On the other hand, if the economy and consumer spending continue to grow at their present pace, rates could go much higher. Some economists are talking privately about levels around 9 per cent. The futures market, which normally overstates the chances of rate rises, does not reflect this.

POUND SPOT FORWARD AGAINST THE POUND

Jul 1		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.3027	-0.1033	906 - 148	20.4778	20.2906	20.2483	3.2	20.1356	3.3	19.6302	3.3	102.5
Belgium	(BFr)	59.5601	-0.2715	280 - 921	60.0520	59.5160	59.393	3.4	59.0497	3.4	57.5084	3.4	102.2
Denmark	(DKr)	10.9863	-0.0492	813 - 912	11.0801	10.9763	10.959	3.0	10.9016	3.1	10.6521	3.0	104.7
Finland	(FM)	8.5995	-0.0453	927 - 062	8.6690	8.5927	8.5742	3.5	8.5217	3.6	8.309	3.4	82.3
France	(FFr)	9.7229	-0.0451	183 - 274	9.8135	9.7183	9.6967	3.2	9.6422	3.3	9.3975	3.3	104.9
Germany	(DM)	2.8854	-0.0147	837 - 870	2.9115	2.8829	2.8771	3.5	2.8596	3.6	2.7829	3.6	103.2
Greece	(Dr)	454.405	-2.396	110 - 699	460.429	454.088	456.188	-4.7	458.812	-3.9	467.16	-2.8	65.3
Ireland	(I£)	1.0920	-0.0112	910 - 930	1.1012	1.0910	1.0917	0.4	1.0906	0.5	1.0826	0.9	99.2
Italy	(L)	2809.71	-22.1	814 - 128	2833.83	2807.58	2809.79	0.0	2809.82	0.0	2808.16	0.1	76.7
Luxembourg	*(LFr)*	*59.5601*	*-0.2715*	*280 - 921*	*60.0520*	*59.5160*	*59.393*	*3.4*	*59.0497*	*3.4*	*57.5084*	*3.4*	*102.2*
Netherlands	(Fl)	3.2478	-0.0131	464 - 492	3.2760	3.2457	3.2384	3.5	3.2193	3.5	3.1354	3.5	101.7
Norway	(NKr)	12.1125	-0.0715	047 - 203	12.2709	12.0807	12.0799	3.2	12.014	3.3	11.7484	3.0	96.1
Portugal	(Es)	291.595	-0.972	258 - 931	293.673	291.258	291.439	0.6	290.909	0.9	286.821	1.6	93.0
Spain	(Pta)	243.905	-0.864	781 - 028	245.820	243.780	243.651	1.3	242.977	1.5	239.359	1.9	77.0
Sweden	(SKr)	12.8147	-0.0543	062 - 231	12.9002	12.8082	12.7908	2.3	12.7379	2.4	12.5276	2.2	84.2
Switzerland	(SFr)	2.4200	-0.0063	186 - 214	2.4421	2.4181	2.4095	5.2	2.3882	5.2	2.2975	5.1	104.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.7
Ecu	-	1.4704	-0.0058	696 - 711	1.4814	1.4683	1.4674	2.4	1.461	2.6	1.4314	2.7	-
SDR†	-	1.198221	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6580	-0.0061	574 - 585	1.6677	1.6545	-	-	-	-	-	-	-
Brazil	(R$)	1.7855	-0.0062	847 - 863	1.7954	1.7816	-	-	-	-	-	-	-
Canada	(C$)	2.2889	-0.0071	876 - 902	2.3022	2.2850	2.282	3.6	2.2699	3.5	2.2193	3.0	84.6
Mexico	(New Peso)	13.1446	-0.0941	323 - 568	13.2206	13.1235	-	-	-	-	-	-	-
USA	($)	1.6582	-0.0061	577 - 587	1.6680	1.6545	1.6569	0.9	1.6541	1.0	1.6415	1.0	102.7
Pacific/Middle East/Africa													
Australia	(A$)	2.2020	-0.0196	006 - 034	2.2153	2.1949	2.2014	0.3	2.1995	0.5	2.1894	0.6	92.6
Hong Kong	(HK$)	12.8436	-0.0502	389 - 483	12.9187	12.8156	12.8426	0.1	12.8381	0.2	12.7811	0.5	-
India	(Rs)	59.3719	-0.2101	125 - 312	59.6950	59.2810	59.5671	-3.9	59.9676	-4.0	61.6474	-3.8	-
Israel	(Shk)	5.8590	-0.122	542 - 638	5.9983	5.8542	-	-	-	-	-	-	-
Japan	(Y)	190.345	-0.101	221 - 469	191.970	189.900	189.37	6.1	187.415	6.2	179.13	5.9	132.8
Malaysia	(M$)	4.1858	-0.0149	837 - 879	4.2092	4.1771	4.1901	-1.2	4.1981	-1.2	4.2167	-0.7	-
New Zealand	(NZ$)	2.4419	-0.0138	399 - 439	2.4545	2.4380	2.4417	0.1	2.4427	-0.1	2.4499	-0.3	111.5
Philippines	(Peso)	43.7334	-0.1642	804 - 864	43.7864	43.664	43.8933	-4.4	44.1427	-3.7	45.1997	-3.4	-
Saudi Arabia	(SR)	6.2195	-0.0227	174 - 215	6.2558	6.2057	6.216	0.7	6.2076	0.8	6.1711	0.8	-
Singapore	(S$)	2.3709	-0.0088	694 - 724	2.3865	2.3671	2.3682	2.4	2.3562	2.5	2.308	2.7	-
South Africa	(R)	7.5092	-0.0393	044 - 139	7.5619	7.4974	7.5699	-9.7	7.6878	-9.5	8.1248	-8.2	-
South Korea	(Won)	1472.48	-5.42	872 - 624	1481.52	1472.51	-	-	-	-	-	-	-
Taiwan	(T$)	46.0960	-0.1696	509 - 450	46.3370	46.0282	46.0814	0.4	46.0416	0.5	45.8439	0.6	-
Thailand	(Bt)	42.9557	-0.158	013 - 101	41.9710	39.8130	43.2923	-9.4	43.7539	-7.4	44.7841	-4.3	-

† Rates for Jun 30 . Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	12.2438	-0.0172	402 - 474	12.2990	12.2402	12.2198	2.4	12.1708	2.4	11.9468	2.4	102.1
Belgium	(BFr)	35.9185	-0.0315	100 - 270	36.0670	35.9100	35.8435	2.5	35.692	2.5	34.9985	2.6	102.1
Denmark	(DKr)	6.6254	-0.0053	244 - 264	6.6585	6.6244	6.6137	2.1	6.5894	2.2	6.483	2.1	103.9
Finland	(FM)	5.1860	-0.0082	835 - 885	5.2265	5.1885	5.1745	2.7	5.1509	2.7	5.057	2.5	81.6
France	(FFr)	5.8635	-0.0075	625 - 645	5.8940	5.8625	5.852	2.4	5.8281	2.4	5.7193	2.5	104.2
Germany	(DM)	1.7401	-0.0025	396 - 405	1.7488	1.7396	1.7363	2.7	1.7285	2.7	1.6935	2.7	102.7
Greece	(Dr)	274.035	-0.435	940 - 130	276.650	273.940	275.33	-5.7	277.385	-4.9	284.535	-3.8	64.8
Ireland	(I£)	1.5185	+0.0098	175 - 195	1.5195	1.5100	1.5177	0.6	1.5168	0.4	1.5172	0.1	-
Italy	(L)	1694.44	-7.06	400 - 487	1703.74	1693.90	1696.21	-1.2	1699.22	-1.1	1702.64	-0.5	76.1
Luxembourg	*(LFr)*	*35.9185*	*-0.0315*	*100 - 270*	*36.0670*	*35.9100*	*35.8435*	*2.5*	*35.692*	*2.5*	*34.9985*	*2.6*	*102.1*
Netherlands	(Fl)	1.9587	-0.0006	584 - 589	1.9678	1.9584	1.9545	2.6	1.946	2.6	1.9082	2.6	101.4
Norway	(NKr)	7.3046	-0.0162	021 - 071	7.3690	7.3021	7.2901	2.4	7.2617	2.3	7.15	2.1	96.1
Portugal	(Es)	175.850	+0.06	700 - 000	176.380	175.700	175.814	0.2	175.76	0.2	174.59	0.7	93.4
Spain	(Pta)	147.090	+0.02	060 - 120	147.700	147.050	147.045	0.4	146.87	0.6	145.695	0.9	76.5
Sweden	(SKr)	7.7281	-0.0043	253 - 308	7.7499	7.7133	7.7191	1.4	7.6997	1.5	7.6257	1.3	84.0
Switzerland	(SFr)	1.4594	+0.0015	590 - 598	1.4665	1.4590	1.4541	4.4	1.4434	4.4	1.3979	4.2	104.2
UK	(£)	1.6582	-0.0061	577 - 587	1.6680	1.6545	1.6569	0.9	1.6541	1.0	1.6415	1.0	101.9
Ecu	-	1.1278	+0.0003	275 - 280	1.1280	1.1245	1.1292	-1.5	1.1324	-1.6	1.148	-1.8	-
SDR†	-	0.72039	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0768	+0.0002	766 - 769	1.0769	1.0765	-	-	-	-	-	-	-
Canada	(C$)	1.3804	+0.0006	800 - 807	1.3820	1.3799	1.3773	2.7	1.3716	2.6	1.351	2.1	84.3
Mexico	(New Peso)	7.9270	-0.0275	220 - 320	7.9320	7.9220	8.0355	-16.4	8.2465	-16.1	9.157	-15.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.5
Pacific/Middle East/Africa													
Australia	(A$)	1.3279	-0.0069	275 - 284	1.3284	1.3275	1.3277	0.2	1.3272	0.2	1.3228	0.4	94.7
Hong Kong	(HK$)	7.7455	-0.0018	450 - 460	7.7470	7.7450	7.748	-0.1	7.7489	-0.1	7.7492	0.0	-
India	(Rs)	35.8050	+0.005	800 - 300	35.8300	35.7800	35.9425	-4.6	36.2275	-4.7	37.44	-4.6	-
Israel	(Shk)	3.5334	-0.0608	315 - 352	3.6008	3.5315	-	-	-	-	-	-	-
Japan	(Y)	114.790	+0.38	750 - 830	115.290	114.550	114.275	5.4	113.275	5.3	108.975	5.1	134.5
Malaysia	(M$)	2.5243	+0.0003	238 - 248	2.5249	2.5225	2.5288	-2.1	2.5378	-2.1	2.5678	-1.7	-
New Zealand	(NZ$)	1.4726	-0.0029	719 - 734	1.4736	1.4715	1.4734	-0.7	1.4758	-0.9	1.4859	-0.9	-
Philippines	(Peso)	26.3740	-0.002	500 - 980	26.3980	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	+0.0001	506 - 508	3.7508	3.7506	3.7514	-0.2	3.7524	-0.2	3.7571	-0.2	-
Singapore	(S$)	1.4298	-	293 - 303	1.4315	1.4293	1.4281	1.5	1.4243	1.6	1.4048	1.7	-
South Africa	(R)	4.5285	-0.007	270 - 300	4.5425	4.5190	4.569	-10.7	4.6485	-10.6	4.951	-9.3	-
South Korea	(Won)	888.000	-	000 - 000	890.000	886.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.8000	-	800 - 200	27.8200	27.7800	27.811	-0.5	27.82	-0.3	27.9125	-0.4	-
Thailand	(Bt)	25.9050	-	800 - 300	25.9300	23.9000	26.13	-10.4	26.455	-8.5	27.28	-5.3	-

† SDR rate per $ for Jun 30. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 30: Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

July 1	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅛	3¼	3¼	3¼	3⅜	6.00	2.50	-
France	3⅛	3⅜	3⅜	3½	3⅝	3.10	-	4.75
Germany	3¼	3¼	3¼	3⅜	3½	4.50	2.50	3.00
Ireland	6⅛	6⅛	6¼	6¼	6⅝	-	-	6.75
Italy	6⅞	6⅞	6⅞	6⅞	6⅞	7.75	6.25	6.82
Netherlands	3¼	3¼	3⅛	3¼	3⅛	-	2.50	2.90
Switzerland	1⅛	1⅛	1⅛	1⅛	1⅜	-	1.00	-
US	6⅛	5⅞	5⅞	5⅞	6⅛	-	5.00	-
Japan	½	½	⅝	⅝	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅞	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.49	5.60	5.69	5.92	-	-	-
ECU Linked Ds	-	4¼	4⅜	4½	4⅝	-	-	-
SDR Linked Ds	-	3¼	3⅞	3⅞	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 1	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3¼ - 3⅛	3 3/16 - 3 1/16	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜	3⅞ - 3 11/16
Danish Krone	3 9/16 - 3⅜	3 9/16 - 3½	3 9/16 - 3⅜	3 9/16 - 3½	3 9/16 - 3⅝	3 13/16 - 3¾
German Mark	3⅛ - 2 15/16	3¼ - 2 15/16	3¼ - 3⅛	3⅛ - 3	3¼ - 3⅛	3⅜ - 3¼
Dutch Guilder	3⅛ - 3¼	3⅜ - 2 15/16	3¼ - 2 15/16	3¼ - 3	3⅜ - 3¼	3½ - 3⅜
French Franc	3⅜ - 3⅛	3⅜ - 3¼	3 11/16 - 3⅜	3 11/16 - 3⅜	3 13/16 - 3 11/16	3⅞ - 3¾
Portuguese Esc.	5 11/16 - 5 9/16	6 - 5 11/16	6⅛ - 5 15/16	5⅞ - 5 11/16	5 13/16 - 5 11/16	5¾ - 5⅝
Spanish Peseta	5⅝ - 5⅜	5 13/16 - 5⅝	5⅝ - 5½	5½ - 5¼	5⅞ - 5¾	5⅞ - 5½
Sterling	6½ - 6¼	6 9/16 - 6 5/16	6 11/16 - 6 9/16	6 15/16 - 6 13/16	7⅛ - 6 15/16	7⅜ - 7¼
Swiss Franc	1¾ - 1½	1½ - 1¼	1½ - 1 5/16	1½ - 1 5/16	1⅝ - 1 9/16	1 15/16 - 1 13/16
Canadian Dollar	3⅝ - 3⅜	3⅜ - 3¼	3⅜ - 3¼	3 15/16 - 3 13/16	3 15/16 - 3 13/16	4 13/16 - 4⅜
US Dollar	5⅝ - 5½	5 11/16 - 5⅝	5 11/16 - 5⅝	5 13/16 - 5 11/16	5 15/16 - 5 13/16	6⅛ - 5⅞
Italian Lira	7 3/16 - 6 15/16	6 13/16 - 6 11/16	6⅞ - 6 11/16	6¾ - 6 11/16	6 13/16 - 6⅝	6⅞ - 6 11/16
Japanese Yen	⅝ - ½	⅝ - ½	½ - ⅜	⅝ - ½	⅝ - ½	¾ - ⅝
Asian $Sing	3⅝ - 3¼	3⅝ - 3½	3⅝ - 3½	3 11/16 - 3⅝	3 11/16 - 3⅝	3⅞ - 3¾

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.55	96.55	-	96.56	96.53	14,752	74,962
Dec	96.52	96.52	+0.01	96.53	96.50	7,961	33,005
Mar	96.45	96.47	+0.02	96.47	96.43	228	31,184

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.82	96.84	+0.02	96.84	96.82	11008	282581
Dec	96.72	96.76	+0.03	96.76	96.72	19590	275295
Mar	96.62	96.66	+0.04	96.66	96.62	17584	237059
Jun	96.46	96.50	+0.03	96.51	96.46	15216	176796

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jul		96.90	-			0	395
Aug		96.88	-			0	290
Sep		96.86	-			0	3
Oct		96.85	-			0	50

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.49	93.52	+0.04	93.54	93.45	19774	114193
Dec	93.88	93.90	+0.04	93.91	93.83	12201	81524
Mar	94.15	94.17	+0.04	94.18	94.08	6518	49044
Jun	94.32	94.33	+0.04	94.34	94.24	3282	33785

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	98.42	98.39	-0.08	98.43	98.37	17461	70090
Dec	98.25	98.23	-0.07	98.26	98.22	7933	44574
Mar	98.14	98.14	-0.06	98.16	98.13	929	16503
Jun	98.00	98.00	-0.05	98.02	98.00	71	4226

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		99.31	+0.01			0	na
Dec		99.13	+0.02			0	na
Mar	98.93	98.93	+0.05	98.93	98.93	100	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.84	95.86	+0.02	95.86	95.83	554	8612
Dec	95.79	95.83	+0.05	95.83	95.79	89	6083
Mar	95.75	95.77	+0.03	95.78	95.75	20	4234
Jun	95.73	95.75	+0.04	95.75	95.73	21	3021

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9350	0.14	0.50	0.79	0.12	0.10	0.12
9375	0.04	0.32	0.60	0.27	0.17	0.18
9400	0.01	0.18	0.44	0.49	0.28	0.27

Est. vol. total, Calls 2026 Puts 1953. Previous day's open int., Calls 76275 Puts 39836

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.32	4.845	1.833	4717	5.453	20.34	489.6	409.5	21.52	4.063	1.679	3.843	2.784	319.6	2.469
Denmark	(DKr)	54.21	10	8.850	2.626	0.994	2557	2.956	11.03	265.4	222.0	11.66	2.203	0.910	2.084	1.509	173.3	1.338
France	(FFr)	61.26	11.30	10	2.968	1.123	2890	3.341	12.46	299.9	250.9	13.18	2.489	1.029	2.354	1.705	195.8	1.512
Germany	(DM)	20.64	3.807	3.370	1	0.378	973.8	1.126	4.198	101.1	84.53	4.441	0.839	0.347	0.793	0.575	65.97	0.510
Ireland	(I£)	54.54	10.06	8.904	2.642	1	2573	2.974	11.09	267.0	223.4	11.74	2.216	0.916	2.096	1.519	174.3	1.346
Italy	(L)	2.120	0.391	0.346	0.103	0.039	100	0.116	0.431	10.38	8.681	0.456	0.086	0.036	0.081	0.059	6.775	0.052
Netherlands	(Fl)	18.34	3.383	2.994	0.888	0.336	865.1	1	3.729	89.78	75.10	3.946	0.745	0.308	0.705	0.511	58.61	0.453
Norway	(NKr)	49.17	9.070	8.027	2.382	0.902	2320	2.681	10	240.7	201.4	10.58	1.998	0.826	1.890	1.369	157.1	1.214
Portugal	(Es)	20.43	3.768	3.334	0.990	0.375	963.6	1.114	4.154	100	83.65	4.395	0.830	0.343	0.785	0.569	65.28	0.504
Spain	(Pta)	24.42	4.504	3.986	1.183	0.448	1152	1.332	4.966	119.6	100	5.254	0.992	0.410	0.938	0.680	78.04	0.603
Sweden	(SKr)	46.48	8.573	7.587	2.252	0.852	2193	2.535	9.452	227.5	190.3	10	1.888	0.780	1.786	1.294	148.5	1.147
Switzerland	(SFr)	24.61	4.540	4.018	1.192	0.451	1161	1.342	5.005	120.5	100.8	5.295	1	0.413	0.946	0.685	78.66	0.608
UK	(£)	59.56	10.99	9.723	2.885	1.092	2810	3.248	12.11	291.6	243.9	12.81	2.420	1	2.289	1.658	190.3	1.470
Canada	(C$)	26.02	4.800	4.248	1.261	0.477	1227	1.419	5.292	127.4	106.6	5.598	1.057	0.437	1	0.724	83.16	0.642
USA	($)	35.92	6.625	5.864	1.740	0.659	1694	1.959	7.305	175.9	147.1	7.728	1.458	0.603	1.380	1	114.8	0.887
Japan	(Y)	31.29	5.772	5.108	1.516	0.574	1476	1.706	6.363	153.2	128.1	6.732	1.271	0.525	1.203	0.871	100	0.772
Ecu	-	40.51	7.472	6.613	1.962	0.743	1911	2.209	8.238	198.3	165.9	8.716	1.646	0.680	1.557	1.128	129.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5762	0.5758	-	0.5769	0.5750	31,792	87,554
Dec	-	0.5805	-	0.5805	0.5800	15	961
Mar	-	0.5850	-	-	-	160	227

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6906	0.6892	-0.0016	0.6909	0.6880	16,189	39,523
Dec	0.6961	0.6966	-0.0015	0.6975	0.6961	61	873
Mar	-	0.7194	-	-	-	100	153

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.8820	0.8792	-0.0034	0.8796	0.8771	11,037	52,555
Dec	0.8918	0.8948	-	0.8923	0.8912	6	1,096
Mar	-	0.9114	-	-	-	3	107

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.6606	1.6586	-	1.6645	1.6596	5,522	55,272
Dec	1.6560	1.6540	-	1.6560	1.6540	22	581
Mar	-	1.6540	-	-	1.6500	1	2

UK INTEREST RATES

LONDON MONEY RATES

Jul 1	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅝ - 3	6⅜ - 6⅛	6¾ - 6⅝	6 15/16 - 6 13/16	7 1/16 - 6 15/16	7½ - 7¼
Sterling CDs	-	-	6 9/16 - 6½	6 13/16 - 6¾	6 15/16 - 6⅞	7 3/16 - 7⅛
Treasury Bills	-	-	6 9/16 - 6⅜	6 11/16 - 6 11/16		
Bank Bills	-	-	6 11/16 - 6 11/16	6½ - 6 13/16	6 15/16 - 6 13/16	-
Local authority deps.	6¼ - 6⅛	6½ - 6⅜	6 11/16 - 6 11/16	6 13/16 - 6 13/16	6 15/16 - 6¾	7 1/16 - 6 15/16
Discount Market deps	6¼ - 6⅜	6⅜ - 6¼	-			

UK clearing bank base lending rate 6½ per cent from Jun 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jun 27, 6.4200pc. ECGD fixed rate Stg. Export Finance. Make up day Jun 30, 1997. Agreed rate for period Jul 26, 1997 to Aug 25, 1997, Scheme III 7.98pc. Reference rate for period May 31, 1997 to Jun 30, 1997, Schemes IV & V 6.738pc. Finance House Base Rate 7pc from Jun 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	92.89	92.93	+0.05	92.94	92.88	14068	133383
Dec	92.72	92.77	+0.05	92.78	92.70	18330	111493
Mar	92.64	92.69	+0.05	92.70	92.62	9518	85546
Jun	92.63	92.67	+0.05	92.69	92.60	6812	50966
Sep	92.63	92.68	+0.06	92.70	92.60	4181	36218

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9275	0.24	0.19	0.24	0.06	0.17	0.30
9300	0.08	0.08	0.14	0.15	0.31	0.45
9325	0.02	0.02	0.07	0.34	0.50	0.63

Est. vol. total, Calls 2070 Puts 3430. Previous day's open int., Calls 129012 Puts 122898

EMS EUROPEAN CURRENCY UNIT RATES

Jul 1	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.745726	-0.00298	-6.63	10.16	45
Finland	5.85424	5.87366	+0	0.37	2.47	-2
Italy	1906.48	1917.42	-5.93	0.57	2.27	-4
Portugal	197.398	199.027	+0.143	0.83	2.01	-6
Spain	163.826	166.541	+0.055	1.66	1.18	-12
Denmark	7.34555	7.50304	+0.00195	2.14	0.69	-15
Netherlands	2.16979	2.21844	+0.00054	2.24	0.60	-17
Germany	1.92573	1.97107	+0.00098	2.35	0.49	-23
Austria	13.5485	13.8698	+0.0067	2.37	0.47	-17
Belgium	39.7191	40.6667	+0.0141	2.39	0.46	-17
France	6.45863	6.64289	+0.00096	2.85	0.00	-24
NON ERM MEMBERS						
Greece	295.269	310.265	-0.356	5.08	-2.12	-
UK	0.793103	0.678817	+0.000247	-14.41	20.17	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.650	1.69	2.43	2.92	0.39	1.24	1.81
1.660	1.03	1.86	2.33	0.69	1.67	2.26
1.670	0.56	1.40	1.87	1.22	2.22	2.77

Previous day's vol., Calls 260 Puts 3,100 . Prev. day's open int., Calls 29,015 Puts 30,139

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
0.570	0.59	0.97	1.25	0.17	0.43	0.56
0.575	0.30	0.71	0.96	0.37	0.65	0.80
0.580	0.13	0.48	0.72	0.70	0.90	1.07

Previous day's vol., Calls 69 Puts 2,661 . Prev. day's open int., Calls 9,115 Puts 15,656

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.12	94.12	-0.05	94.12	94.11	73,102	572,216
Dec	93.90	93.90	-0.22	93.91	93.89	117,400	434,003
Mar	93.80	93.80	-0.10	93.81	93.79	70,228	299,454

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.79	94.80	-	94.80	94.80	359	7,579
Dec	94.59	94.60	-	94.59	94.59	1	440

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9675	0.09	0.10	0.11	0.09	0	0.01	0.02	0.09
9700	0	0	0.01	0.02	0.16	0.16	0.17	0.27
9725	0	0	0	0	0.41	0.41	0.41	0.50

Est. vol. total, Calls 2752 Puts 3416. Previous day's open int., Calls 343800 Puts 246599

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9800	0.08	0.12	0.14	0.04	0.20	0.30
9825	0.03	0.05	0.06	0.14	0.39	0.57
9850	0.01	0.02	0.02	0.36	0.57	0.67

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3025 Puts 3283

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.50	Scottish Widows Bank	6.50
Allied Irish Bank (GB)	6.50	Exeter Bank Limited	7.50	•Singer & Friedlander	6.50
•Henry Ansbacher	6.50	Financial & Gen Bank	7.50	•Smith & Williamson Secs	6.50
Bank of Baroda	6.50	•Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	•Guinness Mahon	6.50	United Bank of Kuwait	6.50
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	•Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.50
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50	• Members of London Investment Banking Association	
•Brown Shipley & Co Ltd	6.50	Julian Hodge Bank	6.50	* In administration	
Citibank NA	6.50	•Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.50		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	•Rea Brothers	6.50		
		Royal Bk of Scotland	6.50		

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For the Interest Period 27th June, 1997 to 29th September, 1997, the Notes will carry a Rate of Interest of 6.9375% per annum with interest amounts of £178.66 per £10,000 and £1,786.64 per £100,000 Note, payable on 29th September, 1997.

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The Financial Times plans to publish a Survey on

Bangladesh

on Tuesday, December 16

For further information, please contact:

Gareth Jones

Tel: +44 171 873 3238

Fax: +44 171 873 3595

or Panna Abu Zafor in Bangladesh

Tel: +880 2 606 829

Fax: +880 2 883 343

or your usual Financial Times representative

FT Surveys

TENDER NOTICE
UK GOVERNMENT ECU TREASURY BILLS
For tender on 8 July 1997

1. The Bank of England announces the issue by Her Majesty's Treasury of ECU 1,000 million nominal of UK Government ECU Treasury Bills, for tender on a bid-yield basis on Tuesday, 8 July 1997. An additional ECU 50 million nominal of Bills will be allotted directly to the Bank of England for the account of the Exchange *Equalisation Account.*

2. The ECU 1,000 million of Bills to be issued by tender will be dated 10 July 1997 and will be in the following maturities:

ECU 200 million for maturity on 14 August 1997.
ECU 500 million for maturity on 16 October 1997.
ECU 300 million for maturity on 15 January 1998.

3. All tenders must be made on the printed application forms available on request from the Bank of England. Completed application forms must be lodged, by hand, at the Bank of England, Customer Settlement Services, Threadneedle Street, London not later than 10.30 a.m., London time, on Tuesday, 8 July 1997. Payment for Bills allotted will be due on Thursday, 10 July 1997.

4. Each tender at each yield for each maturity must be made on a separate application form for a minimum of ECU 500,000 nominal. Tenders above this minimum must be in multiples of ECU 100,000 nominal.

5. Tenders must be made on a yield basis (calculated on the basis of the actual number of days to maturity and a year of 360 days) rounded to two decimal places. Each application form must state the maturity date of the Bills for which application is made, the yield bid and the amount tendered for.

6. Notification will be despatched on the day of the tender to applicants whose tenders have been accepted in whole or in part. For applicants who have requested credit of Bills in global form to their account with ESO, Euroclear or CEDEL, Bills will be credited in the relevant systems against payment. For applicants who have requested definitive Bills, Bills will be available for collection at Customer Settlement Services, Bank of England after 1.30 p.m. on Thursday, 10 July 1997 provided cleared funds have been credited to the Bank of England's ECU Treasury Bills Account No. 59005516 with Lloyds Bank Plc, Bank Relations, St George's House, PO Box 787, 6-8 Eastcheap, London EC3M 1LL. Definitive Bills will be available in amounts of ECU 10,000, ECU 50,000, ECU 100,000, ECU 500,000, ECU 1,000,000, ECU 5,000,000 and ECU 10,000,000 nominal.

7. *Her Majesty's Treasury* reserves the right to reject any or part of any tender.

8. The arrangements for the tender are set out in more detail in the Information Memorandum on the UK Government ECU Treasury Bill programme issued by the Bank of England on behalf of Her Majesty's Treasury on 28 March 1989, and in supplements to the Information Memorandum. All tenders will be subject to the provisions of the Information Memorandum (as supplemented) and to the provisions of this notice.

9. The ECU 50 million of Bills to be allotted directly to the Bank of England for the account of the Exchange Equalisation Account will be for maturity on 15 January 1998. These Bills may be made available through sale and repurchase transactions to the market makers listed in the Information Memorandum (as supplemented) in order to facilitate settlement.

10. Copies of the Information Memorandum (and supplements to it) may be obtained at the Bank of England. UK Government ECU Treasury Bills are issued under the Treasury Bills Act 1877, the National Loans Act 1968 and the Treasury Bills Regulations 1968 as amended.

Bank of England
1 July 1997

COMMODITIES AND AGRICULTURE

Rise in price of tea forecast as output drops

By Alison Maitland

Tea prices are expected to rise this year, fuelled by growing demand in eastern Europe and the Middle East and a drop in world output.

The United Nations Food and Agriculture Organisation said yesterday that world production was expected to fall from a record 2.7m tonnes in 1996, because of dry weather in important tea-growing countries such as Sri Lanka and Kenya.

"Consumers will face higher world tea prices," the FAO said in a report for the intergovernmental group on tea, meeting in Bali, Indonesia, this week.

After bigger harvests in almost all the main tea producing countries last year, drought in east Africa in the first quarter of this year has left production more than 30 per cent lower in Kenya.

Wilson Smithett, London tea brokers, said that the Kenyan crop was just over 80m kg in the first five months, down from 116m kg a year earlier. Kenya normally produces about 260m kg a year.

Northern Tanzania, Uganda, Burundi and Rwanda have been similarly affected. The drought is being blamed on El Niño, the latest warming of the tropical Pacific Ocean which has global repercussions.

In Sri Lanka, which usually produces similar amounts to Kenya, output was down by about 6m kg to 103.5m kg in the first five months.

"I think it's unlikely that the second half will see that deficit caught up," said Mr Tony Kane, a director of Wilson Smithett.

He said prices could rise by between 5 per cent and 10 per cent this year. "I don't think there will be a runaway explosion unless there's a major crop catastrophe, but I see little downside potential this side of the new year."

However, Mr Kane added that if the developing El Niño weather pattern wiped out the short end-of-year rains in east Africa, or monsoons failed in India and Sri Lanka, "we could be looking at some very exciting price numbers".

In spite of last year's record harvest, prices are already higher than for some years, especially for lower and medium quality teas.

Demand is outstripping supply and leaving no stocks to carry over from one year to the next.

Average prices for "second-line" teas are about $1.50 a kg, compared with $1.20 a year ago.

However, London prices of about 88p a kg are still well below the peak of 220p in the early 1980s, which followed three poor harvests.

Shortfall in US boosts almonds

By Alison Maitland

Almond prices have shot up in the past few days after detailed estimates of the important Californian crop showed a big shortfall compared with market expectations.

The new crop price for shelled almonds, important ingredients in chocolate and cakes as well as nut packs, jumped by nearly 18 per cent to $450 per 100 kg over the weekend.

Yesterday prices eased back to $430 per 100 kg for August shipments, but still well up on last week.

California is the world's biggest grower of almonds, producing more than two-thirds of world supplies of about 960m pounds, said Mr Bill Hadlow, trading director of C.G. Hacking and Sons, the London nut traders.

Two successive bad harvests had forced up prices to more than $600 for the current crop.

But they have fallen since March on expectations of a much larger new crop from California.

Some traders had been hoping it would exceed the 710m pounds estimated in May.

So when a detailed investigation led to predictions last week of smaller nuts and an overall crop weighing 680m pounds, there was a scramble to buy.

Mr Hadlow said the 30m pound shortfall did not represent a disaster. "It's still a very good crop."

The rise in almond prices comes at a time when hazelnut prices are high because of stockpiling by Turkey, the biggest producer, and as peanut traders rely on a good US crop this summer to make up for a shortage of Chinese exports – which has pushed prices up.

Bio-resources bloom in Yunnan

Yunnan province is already China's tobacconist. Now it wants to be China's florist.

The province, in the south-west corner of the country, produces 800,000 tonnes of tobacco and rolls more than 380bn cigarettes each year. Provincial coffers rely on the income of the cigarette makers, which contribute 70 per cent of annual fiscal revenues and have made the region one of the most successful economies in western China.

However, Yunnan knows it cannot last forever. "In the long term, the decline of the tobacco industry is inevitable," says Professor Zhang Auluo from the provincial government. "Smoking is a bad habit and the level of smokers will slowly fall as living standards rise."

Against the vagaries of the tobacco industry, and in an attempt to enable the rural poor to share the benefits of economic growth, Yunnan plans to build an alternative pillar to the provincial economy – a high-tech bio-resources industry, spanning horticulture, biotechnology, food production and processing, natural medicines and forestry.

The government has drawn up a Yn10bn ($1.21bn) investment programme to foster businesses that can exploit Yunnan's natural plant resources. The province boasts more than 18,000 plant types – the widest variety in China.

Yunnan hopes to reduce its dependency on tobacco in favour of a wider variety of crops Gamma

By 2000, the first investments in bio-resources businesses are expected to yield Yn10bn.

"In 10 more years, it will become another important backbone industry for Yunnan, worth Yn50bn by 2010," says Prof Zhang, who heads the Yunnan Bio-resources Development Office.

The value of Yunnan's agricultural output last year was Yn34.7bn, 23 per cent of the provincial total. The bio-resources revenue will add to existing income from farming and should increase China's use of technology in managing natural resources.

The programme also aims to help redress income inequality in Yunnan. The tobacco industry has driven the province's 10 per cent annual economic growth in the 1990s, but has failed to spread wealth. More than 7m people in the remote mountain regions are regarded as poor by the Chinese government, which sets the poverty line at annual income below Yn500.

One higher margin crop is macadamia nuts. The government is investing a modest Yn46.4m to plant 2,000 ha of the nuts, which sell for double the price of cashews, promising sales worth Yn747m over the next 20 years. Yunnan hopes the industry's success will foster further plantings.

There are also plans to increase local production of walnut milk, an alternative health drink in China, by expanding output at the local factory from 5,000 tonnes a year to 50,000 tonnes, with an estimated sales value of Yn520m.

Production of vanilla, for use in cigarettes, food, medicines and cosmetics, and spirulina, a natural medicine, is likely to win substantial government backing.

The most eye-catching area of agricultural diversification is horticulture. Dounan Village has developed into the largest flower trading centre in south-west China, handling more than 4m flowers a day. Since the 1980s, most of the village's arable land, which previously produced grain, has been replanted with flowers.

The provincial government, in a joint venture with a Taiwanese company, is hoping to turn Yunnan into China's chief producer of orchids, investing Yn100m in building greenhouses which will be able to yield 3m phalaenopsis amabilis.

The chief obstacle to the growth of the flower industry is transport. Air cargo from the province has more than halved in price in recent years, but interested growers say the air service, critical to flower exporters, can be unreliable. Prof Zhang says the government has realised this is "the critical bottleneck".

The tobacco industry is financing some of the diversification. It is providing Yn1bn of the Yn1.6bn needed to fund an international horticultural exhibition in 1999, which will promote the province as China's future florist.

Yunnan is also aiming to attract foreign investment. Investors in bio-resource industries will be offered a two-year tax holiday and a further three years at 50 per cent income tax rates, as well as access to favourable loans from local banks.

The province has given itself 15 years to establish the alternative economy – and it probably has time on its side. Mr Yang Jikang, at the Yunnan Planning Commission, believes the tobacco industry can be relied on for another 20 years.

"But we still have only one pillar industry," he adds. "The government has started fighting smoking so, in the long term, the industry faces problems."

James Harding

Iraq talks fail to stop oil rise

MARKETS REPORT

By Robert Corzine, Susanna Voyle and Alison Maitland

Oil prices continued to edge upwards yesterday in spite of reports of progress in negotiations between the UN and Iraq on a new humanitarian aid distribution plan. Agreement on a new plan is a pre-requisite to the resumption of Iraqi oil exports, the timing of which is now the biggest single factor affecting world crude prices.

The price of Brent Blend for August delivery was quoted at around $18.76 a barrel in late London trading yesterday. On Monday the Brent settlement price was $18.51 a barrel, 33 cents up on the day. The rise on Monday was attributed to growing doubts that Iraq would be able to resume exports before August.

Yesterday, however, UN officials said talks in Baghdad on a new aid distribution plan were going "smoothly," with the possibility of an agreement by the weekend. The plan would still have to be approved by Mr Kofi Annan, the UN secretary general, before it could be implemented.

Iraq, which is allowed to sell $2bn over six months, wanted to renegotiate the aid plan because of the slow pace of delivery of food and other humanitarian supplies in the first phase of the oil-for-food programme.

On the London Metal Exchange zinc continued its recent "bull" run – reaching a fresh 6¾-year high after a 950-tonne drop in warehouse stocks. The metal – which is used to galvanise steel and is alloyed with copper to make brass – has been underpinned this year by technical buying, supported by falling inventory levels that hint at a supply-demand deficit for 1997. That has lured speculative money into the markets, fueling the rally. The three-month price ended the day at $1,436 a tonne.

The sugar supply-demand balance is likely to be tighter in the 1997-98 season largely because of a much lower crop in India, the largest producing country, according to E. D. & F. Man, the commodity brokers.

In its latest sugar report, Man says the tighter supply situation following three years of surpluses is backed by signs that disgruntled Indian farmers have planted much less land because of late payments for their cane.

The prospect of a tighter sugar season helped support the market. White futures in London were little changed yesterday. In New York, October raws were at 11.23 cents a pound in afternoon trade compared with Monday's closing 11.19 cents.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1585-86	1607-08
Previous	1588.5-9.5	1590-91
High/low		1610/1597
AM Official	1574-5	1596.5-7.5
Kerb close		1605-05.5
Open int.	267,330	
Total daily turnover	69,939	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1420-30	1450-60
Previous	1425-35	1450-60
High/low		1455/1445
AM Official	1415-6	1445-50
Kerb close		1450-55
Open int.	5,250	
Total daily turnover	2,370	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	626-27	638-39
Previous	614.5-5.5	627-8
High/low		639/628
AM Official	621-1.5	633-4
Kerb close		637-38
Open int.	35,058	
Total daily turnover	14,569	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6820-30	6930-40
Previous	6750-60	6860-65
High/low		6970/6860
AM Official	6750-60	6875-80
Kerb close		6935-40
Open int.	53,658	
Total daily turnover	18,253	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5490-500	5543-48
Previous	5520-30	5570-80
High/low		5570/5525
AM Official	5485-90	5535-40
Kerb close		5535-40
Open int.	13,724	
Total daily turnover	3,178	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1438.5-39.5	1440.5-41.5
Previous	1414-5	1419.5-20.5
High/low		1442/1414
AM Official	1415-6	1425-6
Kerb close		1436-37
Open int.	96,854	
Total daily turnover	37,972	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2537-42	2404-05
Previous	2564-9	2421-2
High/low	2523	2430/2383
AM Official	2522-23	2398.5-7.5
Kerb close		
Open int.	153,025	
Total daily turnover	59,936	

■ LME AM Official £/$ rate: 1.6641
LME Closing £/$ rate: 1.6585

Spot: 1.6594 3 mths: 1.6539 6 mths: 1.6483 9 mths: 1.6442

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	112.15	-1.50	113.50	111.20	1,140	7,941
Aug	110.75	-1.90	112.70	110.30	74	2,858
Sep	110.05	-2.10	112.45	109.80	3,137	22,545
Oct	108.05	-2.30	110.25	110.25	12	1,287
Nov	107.25	-2.10	109.00	109.00	13	1,206
Dec	106.55	-2.00	107.90	106.80	325	6,758
Total					4,719	49,369

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	333.40-333.80		
Opening	333.70-334.00		
Morning fix	333.60	200.541	488.124
Afternoon fix	333.70	201.425	487.302
Day's High	334.30-334.60		
Day's Low	333.10-333.40		
Previous close	334.30-334.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.07	6 months	4.09
2 months	4.08	12 months	4.12
3 months	4.08		

Silver Fix	p/troy oz.	US cts equiv.
Spot	278.15	464.50
3 months	283.15	469.95
6 months	287.50	475.80
1 year	295.75	487.10

Gold Coins	$ price	£ equiv.
Krugerrand	334-336	201-203
Maple Leaf	-	-
New Sovereign	78-81	47-49

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	334.0	-0.2	-	-	-	3
Aug	335.1	-0.2	335.8	334.8	30,425	100k
Oct	337.4	+0.9	338.2	337.1	396	8,463
Dec	339.7	+2.0	340.3	339.2	5,527	30,778
Feb	342.0	+2.0	342.5	341.6	792	9,133
Apr	344.3	+1.9	348.2	347.7	70	4,753
Total					37,280	194,341

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	420.9	+5.1	426.0	421.0	739	2,822
Oct	411.9	-0.9	422.0	410.5	1,997	11,291
Jan	403.9	-3.9	413.2	411.0	87	1,739
Apr	403.9	-3.9	404.0	404.0	2	130
Total					2,741	15,782

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	176.30	+1.40	183.50	176.00	288	5,519
Dec	169.30	+1.40	176.00	170.00	53	755
Jun	169.80	+0.90	-	-	31	105
Total					341	6,379

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	463.3	+3.3	466.0	462.0	3,004	3,480
Sep	467.8	+3.0	471.0	465.0	28,075	55,498
Dec	474.7	+3.0	477.5	471.0	2,496	13,924
Jan	476.6	+3.0	-	-	-	18
Mar	481.6	+3.0	483.5	478.5	107	8,975
May	485.8	+3.0	485.0	483.0	1	2,837
Total					33,709	91,277

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	20.13	+0.33	20.15	19.79	37,018	95,184
Sep	20.08	+0.24	20.14	19.84	12,127	52,673
Oct	20.05	+0.15	20.09	19.87	5,048	30,863
Nov	20.05	+0.11	20.05	19.92	2,345	19,068
Dec	20.04	+0.07	20.07	19.97	4,600	38,252
Jan	20.05	+0.05	20.09	20.00	1,236	18,545
Total					63,520	397,812

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	18.72	+0.21	18.78	18.54	23,604	68,731
Sep	18.75	+0.15	18.80	18.65	16,384	44,867
Oct	18.81	+0.10	18.85	18.70	5,283	14,083
Nov	18.85	+0.08	18.92	18.77	1,858	10,239
Dec	18.90	+0.07	18.96	18.80	1,882	18,276
Jan	18.89	+0.06	18.96	18.83	1,724	8,856
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	54.50	+0.65	54.70	53.80	14,385	40,684
Sep	55.05	+0.65	55.20	54.40	2,995	19,466
Oct	55.85	+0.65	56.00	55.30	2,997	16,709
Nov	56.55	+0.55	56.75	56.40	1,982	12,770
Dec	57.35	+0.60	57.50	57.10	1,575	15,229
Jan	57.80	+0.60	57.90	57.60	505	12,755
Total					41,249	144,690

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	167.75	+2.50	167.75	166.00	6,213	16,604
Aug	169.25	+2.75	169.25	167.25	4,109	15,858
Sep	170.75	+3.00	170.50	168.75	1,042	8,012
Oct	172.25	+2.75	172.25	170.75	549	7,019
Nov	174.00	+2.75	173.25	173.25	370	4,762
Dec	175.50	+3.00	175.50	174.25	1,013	3,498
Total					13,330	71,775

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	2.135	-0.004	2.150	2.120	6,160	38,112
Sep	2.135	-0.001	2.150	2.125	1,445	21,353
Oct	2.145	-0.011	2.160	2.140	1,414	22,782
Nov	2.275	-0.006	2.285	2.270	737	10,414
Dec	2.410	-0.001	2.420	2.400	631	14,259
Jan	2.450	-0.001	2.460	2.445	441	14,077
Total					12,485	182,493

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	58.70	+0.58	59.00	58.10	17,699	38,419
Sep	58.00	+0.50	58.30	57.50	1,661	10,744
Oct	56.85	+0.40	57.00	56.80	791	7,012
Nov	56.20	+0.29	56.20	56.10	50	2,406
Dec	55.90	+0.35	56.25	55.80	243	5,574
Jan	55.20	-	55.35	55.20	35	3,718
Total					35,620	72,250

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	83.50	+2.00	83.50	83.50	9	236
Sep	84.40	+0.65	-	-	-	177
Nov	86.85	+0.65	87.00	85.75	188	3,789
Jan	88.65	+0.55	88.75	87.75	64	1,837
Mar	90.60	+0.60	-	89.75	65	957
May	92.60	+0.60	91.75	91.75	14	588
Total					275	7,586

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	322.50	-1.25	328.00	322.00	6,303	7,810
Sep	331.50	-0.75	336.00	330.50	15,773	38,525
Dec	344.00	-1.25	348.50	343.50	8,524	31,381
Mar	352.50	-	356.50	351.50	880	4,783
May	350.50	-0.5	354.00	350.50	45	393
Jul	350.00	+1.5	350.00	348.50	160	2,507
Total					31,685	85,399

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	243.25	-4.75	247.75	243.00	24,088	35,700
Sep	233.00	-5	237.50	232.50	22,515	57,970
Dec	232.75	-5.5	237.75	232.25	51,285	142,102
Mar	240.50	-5.5	246.00	240.25	3,723	22,571
May	246.00	-5.25	249.75	246.00	654	2,774
Jul	249.75	-6.25	253.50	249.50	499	6,678
Total					103,131	272,018

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	82.00	+0.50	-	-	-	34
Nov	84.25	+0.40	84.25	84.25	17	1,163
Jan	86.25	+0.40	-	-	15	180
Mar	88.25	+0.40	-	-	-	15
May	89.65	+0.40	-	-	-	4
Total					17	1,398

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	732.00	-39	775.00	713.00	14,679	14,570
Aug	681.00	-37.25	722.00	675.00	20,847	33,323
Sep	612.00	-32	642.00	610.00	3,976	11,878
Nov	589.50	-28	611.00	585.00	21,787	60,421
Jan	594.00	-27.25	615.00	590.00	1,773	10,740
Mar	600.50	-26.25	621.00	600.00	320	2,461
Total					64,090	137,599

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	21.42	-0.37	21.80	21.37	5,551	7,186
Aug	21.58	-0.37	21.94	21.50	12,306	27,475
Sep	21.73	-0.29	22.05	21.72	2,043	13,303
Oct	21.78	-0.35	22.08	21.76	3,000	14,405
Dec	21.91	-0.29	22.15	21.85	9,663	40,305
Jan	22.03	-0.18	22.25	22.00	631	4,165
Total					34,671	111,822

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	244.2	-13.8	259.2	243.0	7,720	13,758
Aug	222.1	-13.1	236.0	220.2	9,606	23,091
Sep	206.0	-10.4	217.0	204.0	2,857	14,526
Oct	197.5	-8.4	207.0	193.0	3,212	13,805
Dec	191.3	-9.3	200.5	187.5	10,125	30,835
Jan	188.8	-9	198.0	186.5	869	3,547
Total					36,873	166,801

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	35.0	-	-	-	-	9
Mar	60.0	+1.0	-	-	-	-
Apr	69.0	+1.0	70.0	67.0	65	811
May	80.0	+1.0	-	-	-	2
Jun	90.0	+1.0	-	-	-	-
Total					65	822

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1274	-16	1295	1270	28	1,282
Aug	1220	-34	1220	1220	6	801
Oct	1384	-35	1415	1385	23	916
Jan	1415	-5	1420	1420	-	122
Apr	1400	-	-	-	-	-
Total					73	2,936

	Close	Prev
BFI	1325	1320

FUTURES DATA
All futures data supplied by CMS.

Minor metals
European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.65%, $ per tonne, 1,980-2,080 (2,000-2,140). Bismuth: min. 99.99%, tonne lots 3.70-3.85 (3.60-3.95). Cadmium: min. 99.95%, cents a pound, 50.00-60.00. Cobalt: MB free market, min. 99.8%, 22.00-23.00; min. 99.3%, 18.85-19.60 (18.75-19.50). Mercury: min. 99.99%, $ per 76 lb flask, 150-160 (153-163). Molybdenum: drummed molybdic oxide, 4.50-4.60. Selenium: min 99.5%, 1.90-2.90 (1.90-2.80). Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 45-55. Vanadium: min. 98%, CIF, 3.90-3.95 (3.80-3.85). Uranium: Nuexco unrestricted exchange value, 10.00 (10.25).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1141	+9	1149	1135	386	7,538
Sep	1158	+8	1170	1150	3,370	35,886
Dec	1183	+14	1175	1153	2,410	34,929
Mar	1175	+17	1186	1162	2,259	43,585
May	1187	+16	1196	1177	712	18,398
Jul	1199	+17	1212	1194	286	5,586
Total					10,419	170,826

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1658	-26	1704	1658	33	149
Sep	1685	-28	1735	1678	4,881	39,210
Dec	1730	-38	1777	1726	860	21,954
Mar	1760	-25	1803	1760	355	22,835
May	1780	-21	1815	1798	230	9,678
Jul	1798	-20	1827	1822	2	961
Total					6,677	107,816

■ COCOA (ICCO) (SDR's/tonne)

Jun 30	Price	Prev. day
Daily	1309.30	1300.81

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1791	+26	1835	1765	647	3,486
Sep	1822	+25	1860	1800	2,697	24,695
Nov	1806	+26	1850	1790	1,323	12,089
Jan	1770	+30	1810	1748	257	3,692
Mar	1740	+25	1780	1723	114	620
May	1730	+25	-	-	-	53
Total					5,048	44,615

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	196.50	+4.10	203.00	195.50	62	743
Sep	175.25	+2.85	184.50	173.00	2,751	11,005
Dec	154.35	+3.45	162.00	152.50	407	5,048
Mar	143.25	+2.40	146.85	143.00	68	2,358
May	138.75	+2.25	142.00	137.00	82	923
Jul	135.75	+2.50	136.50	136.50	4	259
Total					3,293	20,584

■ COFFEE (ICO) (US cents/pound)

Jun 30		Prev. day
Comp. daily	139.77	140.05
15 day average	147.11	149.31

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	321.9	+0.7	323.4	321.2	838	11,245
Oct	317.2	+0.9	318.1	316.4	694	7,709
Dec	315.0	+0.9	316.0	314.5	467	4,255
Mar	316.2	+1.3	316.8	314.0	107	4,109
May	314.7	+0.9	-	-	-	956
Aug	313.5	+1.1	-	-	-	838
Total					2,896	29,898

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	11.24	+0.05	11.40	11.21	7,967	94,780
Mar	11.31	+0.08	11.40	11.25	2,347	39,904
May	11.22	+0.06	11.28	11.18	274	8,717
Jul	11.12	+0.06	11.18	11.11	43	3,836
Oct	11.06	+0.10	11.06	10.97	52	1,193
Mar	10.99	+0.10	10.76	10.76	10	666
Total					15,781	150,313

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	73.55	-0.15	73.57	73.10	65	312
Oct	76.10	-0.32	76.80	76.05	872	11,481
Dec	76.83	-0.29	77.35	76.78	4,829	41,397
Mar	78.03	-0.32	78.50	77.95	591	7,341
May	78.64	-0.26	78.95	78.63	12	1,460
Jul	79.10	-0.05	79.00	78.80	25	891
Total					6,413	65,181

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	73.75	+1.20	74.25	72.20	2,168	2,395
Sep	75.90	-0.50	76.50	75.65	1,887	18,868
Nov	78.80	-0.40	79.00	78.55	274	8,058
Jan	81.75	-0.55	82.25	81.60	115	2,457
Mar	84.65	-0.35	85.00	85.00	34	1,625
May	87.55	-0.15	88.00	88.00	1	320
Total					4,468	31,764

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jul 2	Jul 1	month ago	year ago
1831.6	1935.5	2007.0	2003.8

■ CRB Futures (Base: 1967 = 100)

Jul 1	Jun 30	month ago	year ago
239.42	239.33		

■ GSCI Spot (Base: 1970 = 100)

Jul 1	Jun 30	month ago	year ago
n/a	184.17	n/a	n/a

■ LME WAREHOUSE STOCKS (tonnes)

Aluminium	-975	to	970,850
Aluminium alloy	-120	to	59,440
Copper	+3,125	to	128,325
Lead	+450	to	116,500
Nickel	-96	to	52,284
Zinc	-950	to	423,100
Tin	-70	to	11,685

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Aug	64.825	+0.175	64.750	64.200	8,862	43,052
Oct	67.875	-	67.900	67.550	4,122	24,852
Dec	70.775	-0.075	70.900	70.350	3,205	14,396
Feb	71.925	-0.100	72.100	71.550	1,016	6,882
Apr	73.850	-0.175	74.025	73.475	529	3,180
Jun	70.100	-	70.100	69.900	193	1,681
Total					17,957	94,077

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	83.650	-1.025	84.400	83.525	3,418	6,482
Aug	81.350	-0.600	82.500	81.100	985	11,701
Oct	73.700	+0.200	74.600	73.600	170	7,904
Dec	70.300	+0.725	70.600	70.000	52	4,867
Feb	68.800	+0.425	69.250	68.400	10	2,085
Apr	64.900	-0.100	65.600	64.375	11	1,133
Total					4,767	35,384

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	84.675	-0.550	87.400	83.700	118	2,402
Aug	84.800	-0.275	87.800	82.075	248	3,154
Feb	73.500	+0.950	75.550	69.550	28	556
Mar	71.500	+1.500	73.000	72.500	3	16
Jul	75.500	+1.000	-	-	3	2
Total					397	6,140

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Aug	Nov	Aug	Nov
1575	53	77	21	35
1600	38	63	31	46
1625	27	51	45	58
■ COPPER (Grade A) LME	Aug	Nov	Aug	Nov
2300	161	144	20	60
2400	93	91	52	106
2500	47	54	105	167
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1750	313	187	278	115
1800	292	165	307	143
1850	272	145	337	173
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1100	6	85	8	27
1125	1	71	28	38
1150	-	57	52	49
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1850	49	88	30	63
1900	28	59	-	-
1950	10	-	-	-

LONDON SPOT MARKETS

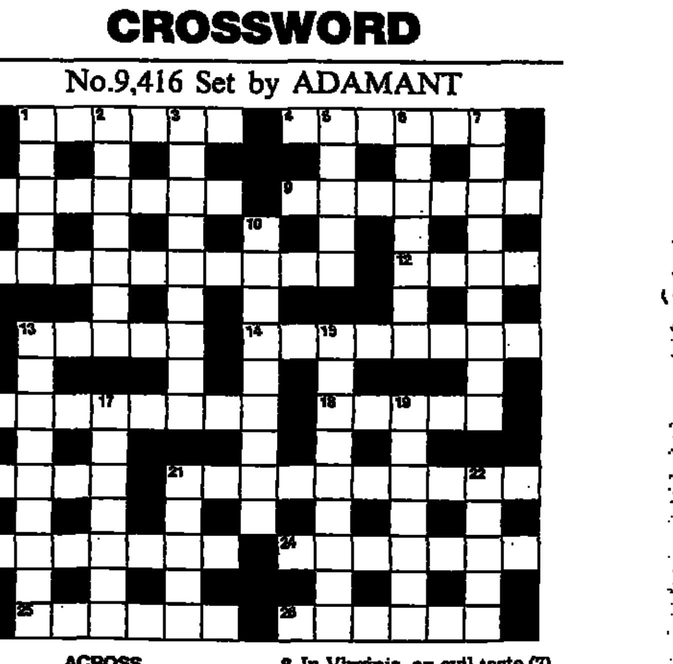
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$17.46-7.56	+0.105
Brent Blend (dated)	$18.65-8.66	+0.450
Brent Blend (Aug)	$18.70-8.71	+0.350
W.T.I.	$20.06-0.08w	+0.460
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$193-195	+2
Gas Oil	$169-171	+3
Heavy Fuel Oil	$79-81	
Naphtha	$172-174	
Jet fuel	$184-186	+3
Diesel	$173-175	+2.5
■ NATURAL GAS (Pence/therm)		
Bacton (Aug)	9.10-9.30	
Petroleum Argus. Tel. London (0171) 359 8792		
IPE (Aug)	9.225	-0.025
■ OTHER		
Gold (per troy oz)‡	$334.65	+0.10
Silver (per troy oz)‡	468.00c	+1.00
Platinum (per troy oz.)	$436.00	+6.00
Palladium (per troy oz.)	$196.00	+4.00
Copper	118.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	13.69r	
Tin (New York)	259.5	-1.00
Cattle (live weight)	95.77p	+1.79*
Sheep (live weight)	118.45p	-1.71*
Pigs (live weight)†	83.03p	-0.29*
Lon. day sugar (raw)	$270.40	+1.60
Lon. day sugar (wte)	$328.50	+1.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Aug)¥	65.75p	
Rubber (Sep)¥	65.75p	
Rubber (KL RSS No1)	257.5x	-4.0
Coconut Oil (Phil)§	660.0y	-5.0
Palm Oil (Malay.)§	517.5w	-5.0
Copra (Phil)§	$415.0y	-5.0
Soyabeans (US)	192.0	-4.0
Cotton Outlook'A' index	81.20c	
Wooltops (64s Super)	424p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Aug. w Jul. ¥London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 3,218 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,416 Set by ADAMANT



ACROSS
1 Abscond to the Middle East (6)
4 Fifty one in complaint to trust (6)
8 Anonymous peacekeepers at this moment entering outskirts of Kowloon (7)
9 Turn down last month's goods (7)
11 When I go, auntie's plan collapses and gets really nasty (10)
12 Hypocritical nonsense about a series of books (4)
13 Want a little credit for adding classic greeting (5)
14 It's grave – pine at the start for emergency treatment (5,3)
16 Attended unusual secret do (8)
18 Soldier went back into vehicle for a smoke (5)
20 Firm provided capital cover (4)
21 Sideways look at Louis' teeth, perhaps (10)
23 After five, it takes a minute to manufacture a nutritional element (7)
24 Some thick or yellow wood (7)
25 Gives a salacious dig at artistic models who take Goethe initially to heart (6)
26 Caught in New York after period at business (6)

DOWN
1 Left another nine sheets (5)
2 In Virginia, an evil taste (7)
3 Fresh and wise, the conservationists have a publicity distributor (9)
5 On one's feet before the court (5)
6 Till relocated around here in France it's outside the law (7)
7 Is the backer the fellow in Mandela's party? That's right! (9)
10 American lawyer slid off, coming up with flowers (9)
13 Guardian may give a discount (9)
15 Calculating judgment (9)
17 Casual worker taking a holiday first? (3-4)
19 After midnight, the girl's family were in a pickle (7)
21 Spear a second fish (5)
22 Loiter on pitch and track (5)

Solution 9,415

O	P	E	R	A	T	O	R		L	E	S	S	O	N
C		C		P		P		A		X		W		I
C	H	O	M	P		A	D	D	I	C	T	I	O	N
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R		E		F		A		S		T		A		U
M	E	T	H	O	D	I	S	T		I	N	N	E	R
E		O		R		L		E		O		G		P
D	Y	N	A	M	O		S	P	I	N	N	E	R	S

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American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 404946211

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
European Multinational Pfolo		Ecu23.75		-0.05	-
European Multinational Pfolo		$28.77		-0.02	-
European Multinational Pfolo		£16.09		-0.02	-
European Multinational Pfolo		L45486		-170	-
European Multinational Pfolo		DM49.70		-0.08	-
Global Multinational Pfolo		Ecu21.74		-0.09	-
Global Multinational Pfolo		$24.50		-0.06	-
Global Multinational Pfolo.		£14.73		-0.04	-
Global Multinational Pfolo.		L41621		-217	-
Global Multinational Pfolo		DM42.75		-0.12	-
US Growth Companies		$16.50		-0.01	-
US Growth Companies		£9.92		-0.01	-
US Growth Companies		L28023		-68	-
US Growth Companies		DM28.79		-0.01	-
US Real Estate Securities		$15.45		+0.16	-
US Real Estate Securities		£9.29		+0.09	-
US Real Estate Securities		L26240		+196	-
US Real Estate Securities		DM26.95		+0.28	-

BAB Asset Management Ltd

10 Piccadilly, London W1V 0EE 0171 734 3700

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Intermarket NAV Jan 13 F		$958.40		+5.84	-
Interportfolio Fund					
Convertible (US$) Jan 16		$758.40		—	-
Convertible (FFr) Jan 16 F		FFr3247.47		—	-
Comfort (US$)	2	$398.23		—	-

Bank Von Ernst & Cie AG

Marktgasse 63/65, 3001 Bern, Switzerland 0041 31 3291111

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
UK Equity		£16.64		-0.13	-
UK Smaller Co's Eqty		£25.61		-0.15	-
Nth American Equity		$16.72		-0.07	-
US Smaller Co's Eqty		$23.33		+0.16	-
Pacific Basin Equity		$16.35		+0.01	-
Japanese Equity		Y584		-6	-
European Equity		DM7.85		-0.15	-
Swiss Equity		SFr16.38		-0.17	-
Sterling Fixed Int		£15.85		-0.04	-
Sterling Fixed Int Div		£10.57		-0.02	-
European Fixed Int		DM13.61		+0.01	-
European Fixed Int Div		DM9.35		+0.01	-

Foreign & Colonial Portfolios Fd Sicav (u)

33 Boulevard Prince Henri, L-1724 Lux 00 352 2269 211

Nikko Global Umbrella Fund

Aetna International Umbrella Fund - Contd.

Emerging Markets Brewery Fund SICAV

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Equity Fund Managers

LUXEMBOURG (REGULATED)(**)

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	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International (Isle of Man) Ltd	[illegible]	[illegible]	[illegible]	[illegible]
PanEuroLife	[illegible]	[illegible]	[illegible]	[illegible]
Premier Life	[illegible]	[illegible]	[illegible]	[illegible]

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CHEMICALS

CHEMICALS - Cont.

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HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

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INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

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LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

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OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

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* Source: Benchmark Fund Analysis ** Source: South China Morning Post 4 August 1996

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Inc R		525	–	528½	520¼	1,915	2.9	♦
Barlow	♦†	981½	[illegible]	97.5	55	1,357	2.2	13.9
Gold Fields Prop R	†	179¾	[illegible]	188	125	18.4	4.8	13.8
SA Brews		818½	[illegible]	818½	611¼	5,506	2.0	♦
Standard Bank		828½	[illegible]	830	521	3,581	1.8	♦
Tiger Oats	†	1100	–	1108	773	1,883	1.7	21.1
[illegible]		742½	-2¼	813	676¼	720.9	2.5	♦

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on mid-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on [illegible].

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 21.2(a) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) from incorporated non-listed companies.
- ■ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, P/E based on earnings updated by latest interim statement
- ♠ Unregulated collective investment scheme

[illegible]

Abbreviations:

[illegible]

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LONDON STOCK EXCHANGE

Budget optimism sees Footsie surge 2.7%

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A mid-morning burst of takeover-merger speculation in the banks and insurance sectors plus a sparkling showing by the utilities fuelled a spectacular eve-of-Budget performance by UK shares.

Adding spice to a resurgence of confidence in equities was a late story that the first Budget under the new Labour government might not, after all, include the abolition of the tax credit for dividend payments. Reports that Mr Gordon Brown, the chancellor, would abolish the tax credit at a stroke were behind the UK market's steep decline which extended to 4.3 per cent over six trading sessions in the middle of June. A surge on Wall Street, after the NAPM survey, added to the general euphoria in the London market.

The recent bid talk surrounding the banks, and National Westminster in particular, reached new peaks of intensity yesterday, driving the shares up almost five per cent at one stage and triggering a sequence of backwardations, where bid and offer prices are reversed because of the frantic pace of trading in the stock.

Potential bid-merger partners for NatWest tripped off dealers' tongues, but the favourite to emerge as an eventual partner for the bank remained Abbey National, which was involved in merger talks with NatWest earlier this year.

Takeover rumours also encompassed the insurance arena, with Commercial Union spearheading the sector amid suggestions that BATs may be about to bid for the company.

Banks, insurances and utilities occupied seven of the top ten places in the FTSE 100 performance table while utilities featured prominently in the FTSE 250.

Sustained mostly by the powerful performances in those areas, but also by an acute squeeze on marketmakers' short positions, the FTSE 100 jumped 123.7, or 2.7 per cent, to 4,728.3.

The heavy gains in the leaders did not fully filter through the market's second-liners and small-cap stocks, which were again hurt by the continued strength of sterling.

The Bank of England's sterling index rose to 102.4, before easing to 101.7 at the close.

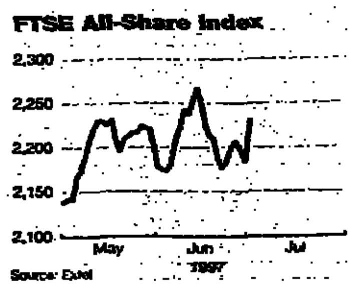
Big exporters, including many of the top engineering companies, such as Lucas Varity, GKN, TI and Wolseley, were among the underperformers in the FTSE 100, while IMI, McKechnie and Laird Group were among the casualties in the FTSE 250.

But the latter managed a 21.3 improvement to 4,452.5, sustained by its utilities components and big rises in Eurotunnel and Amersham, the latter after the surprise merger with Nycomed of Norway.

The FTSE SmallCap index moved in a narrow range, edging up towards the close and finishing the day 0.4 higher at 2,225.6.

The mid-morning upsurge in share prices was in sharp contrast with a subdued opening in London. Turnover in equities was a disappointing 792.1m shares at the 6pm reading.

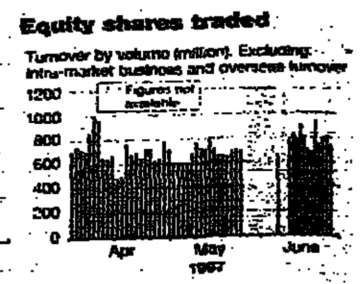
FTSE All-Share index



Source: Datastream

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4728.3	+123.7
FTSE 250	4452.5	+21.2
FTSE 350	2278.3	50.3
FTSE All-Share	2230.43	+45.91
FTSE All-Share yield	3.48	3.56
FT 30	3038.60	+53.0
FTSE Non-Fins p/e	18.84	18.51
FTSE 100 Fut Sep	4789.0	+183.0
10 yr Gilt yield	7.06	7.14
Long gilt/equity yld ratio	7.06	2.02

Best performing sectors

1	Water	+4.8
2	Gas Distribution	+4.5
3	Pharmaceuticals	+4.2
4	Banks: Retail	+4.1
5	Electricity	+3.4

Worst performing sectors

1	Engineering: Vehicles	-1.2
2	Media	+0.0
3	Building Mats	+0.0
4	Distributors	+0.1
5	Engineering	+0.1

Savage squeeze in banks

By Peter John and Martin Brice

Bank stocks led the way forward in the Footsie's biggest one-day points rise since the Conservative general election victory in 1992.

The largest constituent in the market – they represent around a fifth of the FTSE All Share index – they were the obvious choice for dealers desperate to get liquidity in what was very much a marketmakers' market.

But bank traders found themselves under savage pressure in a severe squeeze that began on the derivatives pitches.

There were substantial short positions in traded options and attempts to close these down ahead of the Budget led to a rush of arbitraging and basket trading.

Because of the heavy market weighting, banks always form a large proportion of any stock basket. At the same time, the prospect of National Westminster receiving a bid approach was revisited and the squeeze intensified.

Talk of a possible bidder focused on Barclays as well as Commerzbank of Germany.

NatWest and Barclays raced higher and the rest of the sector played catch up.

Also, Lloyds TSB was helped by a well-timed forecast upgrade from Credit Lyonnais Laing.

Commenting on the moves, one senior sales trader said: "Nobody really expected this move to take place. The whole sector went crazy. If you had any sizeable order you just couldn't get a price for it."

Lloyds at the top

By the close, Lloyds was up at the top of the Footsie with a rise of 39½ to 655½p. It was followed by Bank of Scotland rising 22 to 406p, NatWest 42 to 849½p, HSBC 86 to £19.34½ in the ordinaries and Barclays 37 to £12.29.

The re-rating of the utilities gathered pace as the market became increasingly convinced that £5bn was the ceiling for the government's proposed tax on windfall profits.

But sharp rises, particularly among water stocks, were accompanied by low volumes and were said principally to reflect marketmaker-to-marketmaker activity.

For example, Wessex Water rose 7.5 per cent to hover around the top of the FTSE 250. But the shares jumped 30½ to 434p with only 550,000 changing hands. It was closely followed by Yorkshire Water, which added 28 at 418½p with turnover of 1.6m shares, and Anglian, 44 to 695½p with 1.4m shares.

Electricity issues achieved marginally more fundamental buying as investors sought out companies with strong balance sheets that would easily resist windfall impositions. National Grid gained 13¼ to 233p.

BG, another sizeable windfall tax candidate, lifted 12 to 233p after recent weakness. Paribas issued a note which argued that the two big US credit ratings agencies, S&P and Moody's, might be expected to upgrade their ratings now that regulatory worries are out in the open.

Exporters suffer

The continued strength of sterling weighed heavily on companies with exposure to exports, particularly engineering stocks.

Traders said the severe movements yesterday were a reaction to data released on Monday that increased the likelihood of an interest rate rise, which would make sterling even stronger.

LucasVarity was second in the list of Footsie fallers, off 3½ at 204¼p, while GKN took third place with a fall of 15 to £10.19½ and TI was fifth with a 6½ loss to 517p. Wolseley, which has only a quarter of its sales in the UK, shed a penny to 467½p.

In the FTSE 250, IMI shed 11 to 332p, while McKechnie shed 6½ to 416 and Laird Group was off 4½ at 345p.

Still on the currency front, even WPP, the marketing services company, was off 4 at 242½p.

The markdown came after it rose a penny on Monday when it said at the annual meeting that sales were up 7 per cent on a constant currency basis, but due to the strength of sterling the reportable figures were down in the first five months.

Commercial Union rose 30 to 661½p on revived speculation about a possible merger with the insurance operations of BAT Industries and on a technical bounce after recent declines. BAT lifted 8¼ to 546p.

Badly battered BSkyB shed another 11 to 429p, the worst performance in the FTSE 100. A cold collation of disappointing news has sent the shares diving more than 27 per cent over the past couple of weeks.

Amersham International surged 87½ to £16.82½ after the group said it planned to merge with Nycomed of Norway creating a global group capitalised at £1.8bn.

The health and technology group said it anticipated combined job losses of between 250 and 300 as a result of the merger.

Glaxo Wellcome rebounded from recent profit-taking following strong general market moves in London and New York. The shares jumped 71 to £13.11. SmithKline Beecham, also heavily held by US investors, added 44¼ at £11.50.

Orange was up 5 at 203½p after second-quarter subscriber figures that showed an increase of 86,000, up from an increase of 85,000 in the comparable period. It also said it had turned earnings-positive in April. Panmure Gordon recommended the stock.

Eurotunnel rose 6 to 69p after the company's prospects of winning shareholder approval for its restructuring improved sharply.

However, one trader suggested the rise was overdone. "My assumption is that the market always thought the deal would be approved, because the alternative was that the shares would be worth almost nothing, so this is a mysterious share price reaction." Nevertheless, volumes were small.

Among food producers, Hillsdown Holdings gave up 5 to close at 164p after house broker ABN Amro Hoare Govett downgraded profit forecasts for the year to December, by £10m to £160m. The strength of sterling was cited as one reason for the downgrade.

Scottish & Newcastle was up 11½ to 658p after its strong results on Monday, which prompted a series of brokers' notes.

Goldman Sachs reiterated its "market outperformer" stance, but Lehman Brothers continued to rate the stock an "underperformer".

MFI was the biggest faller in the FTSE 250 as it gave up 6 to close at 129p after results at the lower end of expectations and a disappointing statement on current trading.

FT 30 INDEX

	Jul 1	Jun 30	Jun 27	Jun 26	Jun 25	Yr ago	*High	*Low
FT 30	3038.6	2985.6	3003.3	3014.4	2997.2	2736.8	3077.4	2668.8
Ord. div. yield	3.63	3.70	3.67	3.66	3.67	4.08	4.22	3.56
P/E ratio net	18.30	17.95	18.07	18.12	18.07	16.16	18.64	15.80
P/E ratio nil	18.12	17.76	17.89	17.94	17.88	16.07	18.45	15.71

FT 30 since compilation: high 3077.4 13/06/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2984.7	2987.6	2998.8	3018.2	3010.6	3014.7	3014.1	3019.2	3034.9	3039.0	2978.5

	Jul 1	Jun 30	Jun 27	Jun 26	Jun 25	Yr ago
SEAQ bargains	53,281	51,030	46,352	48,450	51,094	29,367
Equity turnover (£m)†	-	NA	2850.6	3012.7	2727.0	1196.4
Equity bargains†	-	NA	45,763	49,207	42,189	32,211
Shares traded (ml)†	-	NA	818.6	744.4	809.8	433.6

†Excluding intra-market and overseas turnover but including Crest turnover.

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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	840	Total Highs	86	Total contracts	N/A
Total Falls	637	Total Lows	101	Calls	N/A
Same	1,597			Puts	N/A

Jul 1 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4611.0	4789.0	+183.0	4790.0	4607.0	15378	63048
Dec	4707.0	4846.0	+182.5	4757.0	4707.0	290	3074
Mar		4882.5	+182.5			0	1

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		4521.0	+18.0			0	7108

FTSE 100 INDEX OPTION (LIFFE) (*4603) £10 per full index point

Calls 1,917 Puts 1,824

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4425 C	4425 P	4475 C	4475 P	4525 C	4525 P	4575 C	4575 P
Jul	198	33½	160½	45½	125½	61	95	80
Aug	223½	61	189	75½	156	93	126	112½
Sep	255½	77	221	92	189½	109½	160	129½
Dec†	340½	109			272½	138		
Mar†	393½	131			330	163		

Calls 6,257 Puts 7,639 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	68.4	127½	124½	Ashtenne	125		W5.0	1.8	5.0	14.0
§	F.P.	95.9	1200	782½	Aston Villa	837½		R8.8	1.8	1.3	48.0
§150	F.P.	30.5	152½	149½	AIT	150½		L1.38	3.9	1.1	28.3
	F.P.	15.9	102	42½	Caradon B	98½		-	-	-	-
*	F.P.	2.02	26	24	†Euro Mining Fin	25		-	-	-	-
§2.5	F.P.	3.25	3¼	3	Grosmont Hldgs	3¼		-	-	-	-
§-	F.P.	0.90	¾	½	Grosmont Hld Wrt	¼		-	-	-	-
§140	F.P.	11.2	147½	98½	Heart of Midlthn	110½		-	-	-	-
§120	F.P.	10.3	127½	124½	†Highland Timber	124½		-	-	-	-
100	F.P.	3.25	125	102½	†Integrated As Mg	125		-	-	-	-
§	F.P.	3.88	119½	112½	Longbridge Intl	117½		-	-	-	16.4
290	F.P.	6.253	357½	316½	Norwich Union	324½	+5	L10.6	1.8	4.1	16.9
§185	F.P.	118.2	200½	195½	Powderject Pharm	200		-	-	-	-
§	F.P.	14.0	139½	136½	Primesight	139½		-	-	-	14.0
100	F.P.	33.3	112½	99½	Reebourne Marlin	110½		-	-	-	-
§	F.P.	68.9	227	204½	Royalblue Grp	208½	+1	1.5	2.6	0.9	52.9
§100	F.P.	7.99	120½	110½	†SBS Group	112½		L2.4	2.0	2.7	19.8
§150	F.P.	116.6	157½	155	SGB Group	155½		L4.4	2.8	3.5	12.7
§3	F.P.	5.04	4	3½	Versatile Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jun 30	% chg on day	Jun 27	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1392.84	-0.7	1402.78	2016.69	2.41	-	2138.03	1382.84
Regional Indices								
Africa (14)	1416.63	-3.1	1462.46	2676.19	6.18	22.75	2917.88	1416.63
Australasia (6)	1614.73	-0.2	1618.54	2419.82	3.19	18.31	2455.10	1614.73
North America (11)	1368.82	+0.0	1368.45	1773.85	1.05	56.37	1884.08	1335.84

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jul 1	Day's chge%	Jun 30	Jun 27	Jun 26	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4728.3	+2.7	4604.6	4640.3	4657.9	3725.7	3.45	2.04	17.76	91.51	2019.48
FTSE 250	4452.5	+0.5	4431.3	4446.0	4459.4	4376.0	3.72	1.61	20.84	97.16	1894.49
FTSE 250 ex IT	4454.9	+0.5	4434.3	4449.0	4463.1	4415.9	3.87	1.64	19.68	100.13	1870.98
FTSE 350	2278.3	+2.3	2228.0	2243.4	2251.5	1878.8	3.50	1.95	18.27	45.15	1988.24
FTSE 350 ex IT	2278.3	+2.3	2227.2	2242.8	2251.0	-	3.53	1.96	18.04	12.70	1019.41
FTSE 350 Higher Yield	2221.5	+2.5	2168.5	2180.4	2186.4	1794.2	4.71	1.77	15.04	53.62	1643.38
FTSE 350 Lower Yield	2340.9	+2.0	2294.5	2311.3	2321.4	1970.5	2.49	2.25	22.29	36.08	1673.08
FTSE SmallCap	2225.62	.....	2225.24	2233.09	2236.02	2190.28	3.21	1.72	22.64	40.80	1893.19
FTSE SmallCap ex IT	2200.17	-0.1	2201.88	2210.29	2212.87	2190.74	3.47	1.80	19.99	43.81	1887.59
FTSE All-Share	2230.43	+2.1	2184.52	2199.07	2206.71	1863.54	3.48	1.94	18.52	43.95	1975.52
FTSE All-Share ex IT	2230.08	+2.2	2183.10	2197.94	2205.88	-	3.52	1.95	18.15	12.60	1015.73

FTSE Actuaries Industry Sectors

	Jul 1	Day's chge%	Jun 30	Jun 27	Jun 26	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4582.02	+2.8	4457.04	4506.35	4487.45	3510.20	3.33	2.01	18.64	88.92	2052.72
12 Extractive Industries(5)	4434.94	+1.4	4372.77	4377.68	4421.86	4286.54	3.55	2.38	14.78	104.60	1355.62
15 Oil, Integrated(3)	4766.89	+3.2	4618.87	4678.04	4644.87	3571.89	3.50	1.95	18.33	94.47	2195.91
16 Oil Exploration & Prod(12)	3733.15	+1.1	3693.36	3724.84	3736.20	2481.02	1.55	2.21	36.38	39.12	2287.89
20 GEN INDUSTRIALS(265)	1922.14	+0.3	1916.03	1920.74	1925.66	2020.78	4.16	1.69	15.87	42.03	1098.48
21 Building & Construction(35)	1351.81	+0.3	1347.57	1358.28	1363.24	1195.02	3.28	1.94	19.65	26.30	1176.91
22 Building Matls & Merchs(30)	1858.57	.....	1858.63	1872.98	1871.03	1874.18	4.34	2.62	10.20	41.69	982.21
23 Chemicals(26)	2428.76	+0.6	2414.54	2420.80	2431.80	2423.24	4.35	1.48	19.45	64.32	1211.80
24 Diversified Industrials(15)	1339.56	+1.7	1317.75	1301.95	1315.56	1572.44	5.47	1.98	11.53	37.73	794.35
25 Electronic & Elect Equip(37)	2045.50	+0.2	2042.18	2032.31	2000.59	2274.68	3.87	1.57	20.51	18.04	1095.58
26 Engineering(68)	2525.55	+0.1	2522.67	2538.61	2552.37	2447.90	3.40	2.27	18.20	50.97	1593.85

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

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FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 02.07.1997 — Final Prices for Trading 04.06.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	12.14	9.50	10.36	0.99
0100	12.14	9.50	10.36	0.99
0130	12.14	9.50	10.36	0.99
0200	12.14	9.50	10.36	0.99

...that system. Charges are calculated by NGC and are based on payments made by NGC into the Pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 946 8788 between 8:30am and 5.15pm Monday to Friday.

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(SAB)

THE SOUTH AFRICAN BREWERIES LIMITED

(Incorporated in the Republic of South Africa) Registration No. 66/16025/06

("the Company")

RESULTS OF THE CAPITALISATION SHARE AWARDS

UAL Merchant Bank Limited is authorised to announce that, further to the announcement published on Wednesday, 14 May 1997, elections from:

- ordinary shareholders to receive a final cash dividend of 222 cents per ordinary share on account of the year ended 31 March 1997 were made in respect of a total of 51 814 491 ordinary shares, resulting in a final cash dividend payment of R115 028 170.02 of which, in terms of further elections made by ordinary shareholders, R1 172 890.38 was utilised to subscribe for 8 475 new ordinary shares in the Company at a subscription price, based upon the weighted average price of the Company's ordinary shares on the Johannesburg Stock Exchange ("the JSE") for the four business days ended Thursday, 26 June 1997, of R138.042961 ("weighted average price");
- holders of the series B automatically convertible cumulative preference shares ("B convertible preference shares") to receive a cumulative preferential cash dividend of 127.5 cents per B convertible preference share on account of the six months ended 31 March 1997 ("the preferential cash dividend") were made in respect of a total of 4 454 339 B convertible preference shares, resulting in a preferential cash dividend payment of R5 759 659.28 of which, in terms of the further elections made by holders of B convertible preference shares, R1 848.75 was utilised to subscribe for 12 new ordinary shares in the Company at a subscription price based on the weighted average price.

As a result, a total combined dividend payment of R121 547 901.41 (which includes those dividends utilised in subscribing for new ordinary shares in the Company in terms of the further elections made by ordinary shareholders and the holders of the B convertible preference shares and also includes R840 449.16 in residual cash dividends payable in lieu of fractional entitlement to ordinary shares) is due by the Company.

Accordingly, pursuant to the capitalisation share awards and based on the weighted average price, 4 516 562 new ordinary shares are to be issued to ordinary shareholders, on the basis of 1.7046867 new ordinary shares for every 100 ordinary shares held, which together with 8 475 ordinary shares to be issued pursuant to the subscription of shares by ordinary shareholders represents a 83.72% issue in lieu of the final cash dividend and 220 845 new ordinary shares are to be issued to the holders of the B convertible preference shares, on the basis of 0.9790430 new ordinary shares for every 100 B convertible preference shares held, which together with 12 ordinary shares to be issued pursuant to the subscription of shares by the holders of the B convertible preference shares represents a 83.32% issue in lieu of the preference cash dividend, making a combined total issue of 4 745 894 new ordinary shares. Accordingly, the number of issued ordinary shares in the share capital of the Company has increased from 317 115 208 ordinary shares to 321 861 102 ordinary shares.

Listings
The listing of the 4 745 894 new ordinary shares in the Company will commence on the JSE and on the London Stock Exchange from the commencement of business today.

Posting of share certificates and dividend cheques
Share certificates in respect of the new ordinary shares and cheques in respect of the final cash dividend, the preferential cash dividend and the residual cash dividend in respect of fractional entitlements to new ordinary shares will be posted to the applicable shareholders registered on the South African share registers by registered and ordinary mail respectively and to the applicable shareholders registered on the United Kingdom share register by first class mail today.

By order of the Board
A O C Tonkinson, *Group Secretary*

2 Jan Smuts Avenue
Johannesburg 2001

2 July 1997

HILL SAMUEL OVERSEAS FUND

(in liquidation)
SICAV
11, rue Aldringen, L-1118 Luxembourg
R.C. Luxembourg B 8.422

NOTICE TO THE SHAREHOLDERS

The shareholders are hereby informed that the Extraordinary General Meeting of 27 June 1997 decided to pay an interim liquidation dividend of USD 80 per share to the shareholders.

Those shareholders who have already given their intention to reinvest in the sub-fund North American Equity of the Sicav Von Ernst Global Portfolio will receive a subscription form and the difference (if any) will be paid to them.

Paying agent is: KREDIETBANK S.A. Luxembourgeoise
43, boulevard Royal
L-2955 Luxembourg

By order of the Liquidator
ABACUS S.C., Luxembourg

KfW International Inc.
Nom. ITL 150,000,000,000.-
Floating Rate Notes due 1998

Notice is hereby given that from 30 June 1997 to 30 September 1997 (92 days) the notes will carry an interest rate of 6.50859% per annum. Interest payable on 30 September 1997 will amount to ITL 83,165 per ITL 5,000,000 Note and ITL 831,653 per ITL 50,000,000 Note.

Agent Bank: Société Européenne de Banque, Société Anonyme

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صكدا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 1 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jul 1 / Frs.)

[illegible]

CZECH REP (Jul 1 / Koruna)

[illegible]

DENMARK (Jul 1 / Kr)

[illegible]

FINLAND (Jul 1 / Mkk)

[illegible]

FRANCE (Jul 1 / Frs.)

[illegible]

GERMANY (Jul 1 / Dm.)

[illegible]

GREECE (Jul 1 / Drachma)

[illegible]

ITALY (Jul 1 / Lira)

[illegible]

NETHERLANDS (Jul 1 / Fls.)

[illegible]

NORWAY (Jul 1 / Kroner)

[illegible]

POLAND (Jul 1 / Zloty)

[illegible]

PORTUGAL (Jul 1 / Escudo)

[illegible]

SPAIN (Jul 1 / Pts.)

[illegible]

SWEDEN (Jul 1 / Kronor)

[illegible]

SWITZERLAND (Jul 1 / Frs.)

[illegible]

TURKEY (Jul 1 / Tk Lira)

[illegible]

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PACIFIC

JAPAN (Jul 1 / Yen)

[illegible]

AUSTRALIA (Jul 1 / Aust$)

[illegible]

HONG KONG (Jun 27 / H.K.$)

[illegible]

INDONESIA (Jul 1 / Rupiah)

[illegible]

MALAYSIA (Jul 1 / MYR)

[illegible]

NEW ZEALAND (Jul 1 / NZ $)

[illegible]

SINGAPORE (Jul 1 / S$)

[illegible]

SOUTH KOREA (Jul 1 / Won)

[illegible]

TAIWAN (Jun 30 / TW $)

[illegible]

THAILAND (Jun 30 / Baht)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jun 30 / Can $)
Closed July 1

[illegible]

MONTREAL (Jun 30 / Can $)
Closed July 1

[illegible]

AFRICA

SOUTH AFRICA (Jul 1 / Rand)

[illegible]

INDICES

[illegible]

INDEX FUTURES

[illegible]

US INDICES

Dow Jones	Jun 30	Jun 27	Jun 26	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7672.79	7687.72	7654.25	7796.51 (20/6)	6391.69 (11/4)	7796.51 (20/6/97)	41.22 (8/7/32)
Home Bonds	102.96	103.02	102.85	103.63 (19/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2713.81	2732.43	2709.08	2758.82 (20/6)	2222.07 (2/1)	2766.62 (20/6/97)	13.23 (8/7/32)
Utilities	226.79	225.50	224.32	240.85 (22/1)	209.47 (25/4)	258.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 7788.01 (7793.12) Low 7571.46 (7627.33) (Theoretical)
Day's high 7727.30 (7770.73) Low 7612.17 (7653.79) (Actual)

Standard and Poors	Jun 30	Jun 27	Jun 26	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	885.15	887.30†	883.68	898.70 (20/6)	737.01 (2/1)	898.70 (20/6/97)	4.40 (1/6/32)
Industrials♥	1042.97	1043.59	1039.34	1064.79 (20/6)	865.42 (11/4)	1064.79 (20/6/97)	3.52 (30/6/32)
Financial	100.13	101.49	101.17	104.16 (19/6)	80.75 (2/1)	104.16 (19/6/97)	7.13 (4/9/74)
NYSE Comp.	462.44	463.30	460.93	467.84 (20/6)	389.47 (11/4)	467.84 (20/6/97)	4.84 (25/4/42)
Amex Comp.	622.57	620.07	616.10	630.10 (13/6)	541.20 (28/4)	630.10 (13/6/97)	524.20 (16/7/96)
NASDAQ Cmp	1442.07	1438.15	1436.38	1452.43 (24/6)	1201.00 (2/4)	1452.43 (24/6/97)	54.87 (3/10/74)

■ RATIOS

	June 27	Jun 20	Jun 13	Year ago
Dow Jones Ind. Div. Yield	1.67	1.66	1.64	2.19
	Jun 25	Jun 18	Jun 11	Year ago
S & P Ind. Div. yield	1.62	1.59	1.62	1.87
S & P Ind. P/E ratio	24.35	24.27	24.13	22.29

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Chesapeake	7,091,300	6⅝	+⅝
Philip Morris	6,133,400	44⅛	+1⅛
AT&T	4,915,000	35	-¾
PepsiCo	4,352,700	37	-⅛
Wal-Mart	4,233,000	33¾	+1
Gen Elec	4,131,200	65⅞	-⅛
Fed Dept St	3,648,300	35⅛	-⅛
Micron	3,448,000	39⅞	-⅛
Tandem	3,310,500	20¼	+⅛
Banc One	3,204,900	48⅛	-1⅛

■ TRADING ACTIVITY

● Volume (million)

	Jun 30	Jun 27	Jun 26
New York SE	561.404	455.209	499.781
Amex	23.565	22.367	24.847
NASDAQ	645.637	563.361	621.504
NYSE			
Issues Traded	3,380	3,357	3,386
Rises	1,524	1,808	1,309
Falls	1,287	940	1,455
Unchanged	569	609	622
New Highs	323	224	170
New Lows	17	7	17

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	889.90	890.15	-	894.35	889.30	63,799	170,564
Dec	901.50	901.00	-	904.00	901.50	157	4,910

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	20630.0	20100.0	-470.0	20560.0	20100.0	26,850	163,968
Dec	20450.0	20150.0	-470.0	20450.0	20150.0	3,960	3,405

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, July 1, 1997

	Stocks Traded	Closing Prices	Change on day
NEC Corp	7.9m	1540	-60
Fujitsu	6.0m	1560	-30
Hitachi	4.5m	1280	
Nippon Steel Cp	4.2m	357	-9
JAL	3.5m	590	+9
Sakura Bank	3.4m	864	-14
Mazda Motor	3.4m	415	+15
Mitsubishi Hvy	3.4m	870	-9
Tokyo Gas	3.3m	315	-3
Nomura Secs	3.2m	1550	-30

هكذا من الأصل

4 pm close July 1

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A -								
32½	24¼	AAR	0.48	1.5	25	693	u32⅞	32¼	32⅞	+¼
43⅛	33⅛	AMP	1.04	2.5	33	5598	u43⅛	41¾	42⅛	+⅜
103¼	78¾	AMR			7	4156	93½	92⅛	92⅞	+⅛
37⅞	30⅝	ASA	1.20	3.9	20	285	31⅛	30¾	30⅞	-⅛
68⅞	49¾	AbbtL	1.08	1.6	26	9410	67¼	65¾	65⅞	-⅞
18⅝	14⅛	Abitibi Pr	0.40	2.3	9	20	17¾	17¾	17¾	
20	17⅜	ABM Ind	0.40	2.1	17	85	19⅞	18⅞	19⅜	+⅛
23	17¾	Acptncein			11	59	22¾	22½	22½	-¼
75¼	58⅛	ACE Ltd x	0.88	1.2	12	793	74	73¼	73½	-⅞
10¾	10	ACM Gvt In	0.90	8.8	11	380	10⅛	10⅛	10⅛	
7¾	7	ACM GvOpp	0.63	8.3		171	7⅞	7⅝	7⅝	
9⅞	9¼	ACM Man	0.90	9.1		46	d9⅞	9⅞	9⅞	
10⅜	6¼	Acme Elect				22	6⅞	6⅝	6⅞	+⅛
20	13	Acme Mills				17	17⅛	17⅛	17⅛	
19¾	14	ACNielsen			34	827	19½	18⅞	19	-⅛
40⅛	27¼	Acordia	0.80	2.0	19	35	40	39⅞	40	
29¾	21⅛	Acuson				433	23¾	23	23¼	+¼
23¾	19⅝	Adams Expr	0.55	2.3	1	463	u23⅞	23⅞	23⅞	+⅞
48½	24⅞	AdvMic				17811	35½	34⅞	34¾	-1¼
27½	10⅜	Advest Grp x	0.12	0.5	17	278	24⅛	23⅜	23⅞	+⅛
16⅞	11⅜	Advo Inc			19	272	16⅝	16	16⅝	+⅜
78⅝	61⅛	Aegon	1.31	1.9	19	8708	70⅝	70⅛	70½	+⅞

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FINANCIAL TIMES

Continued on next page

NYSE PRICES

4 pm close July 1

Continued from previous page

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Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX PRICES

4 pm close July 1

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NY TmA	0.64	24	2811	50⅝	49⅞	50½	+1
NVR		8	24	15¼	15¼	15¼	
Pegasus G		61	904	6¼	6⅛	6 3/16	+1/16
Pertel		4	87	7⅝	7 7/16	7⅝	+¼
PMC x	1.28	11	205	14⅛	14	14 1/16	-1/16
RaganBrad			10	23⅝	23⅝	23⅝	
SJW Corp	2.28	12	3	52⅝	52⅜	52⅝	+⅛
Tab Prods	0.20	12	26	9⅞	9⅞	9⅞	
Tel&Data x	0.42	62	z0	37 15/16	37 15/16	37 15/16	-1/16
Thermedics		14	406	16 7/16	15 7/16	16⅜	+11/16
Thermopins		22	591	31⅝	30¾	31⅜	+⅞
TotPNA		146	594	10¼	9⅞	10¼	+⅜
TownCntry		0	10	¼	¼	¼	
Tubos Mex			5446	u19⅜	18⅜	19¼	+13/16
UtdFoodsA		29	z0	2⅜	2⅜	2⅜	
UtdFoodsB		28	20	2 5/16	2 5/16	2 5/16	
US Cellul		18	125	u29 15/16	29⅜	29⅞	+¼
ViacmA		164	2897	29 15/16	28½	29⅝	+9/16
ViacmB		168	16122	30⅜	28¾	30⅜	+⅞
WRET	1.12	21	z0	u13⅞	13⅞	13⅞	+1/16
Xytronix			293	1 7/16	1 7/16	1 7/16	

[illegible]

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NASDAQ NATIONAL MARKET

4 pm close July 1

[illegible]

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
K Swiss x	0.08	393	71	u15¾	13¾	15¾	
Kaman Cp x	0.44	28	126	15⅛	14½	14⅝	-¼
Kelly Sr	0.84	16	354	31¾	31	31⅝	+¼
Kimball x	1.16	14	379	40⅜	39⅝	40¼	
KLA-Tn		27	24844	52⅞	48¼	52⅛	+3⅜
Kell A			414	⅛	d 1/32	0.11	
Komag‡		10	13881	16¾	16	16⅛	-¼
Kulicke S			4658	34	32	33	+1 5/16

[illegible]

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3.75		0	8.25	3.375	Innogenetics	US$11.375		53575	12.75	10.375
Artwork Systems	US$10.25		12590	11.125	9.5	Lernout & Hauspie	US$28.25	+1	5900	29.375	25
Chemunex	FFr16		54700	18	14	Mercer Internatl.	US$9.5	-0.125	0	11.75	8.125
Dr Solomon's ADS	US$26	+0.125	12000	26.75	16.875	PlaTech	US$3.875		50000	6.125	3.875
EspriT Telecom ADS	US$9		0	12.25	6.375	Schoeller-Bleckmann	Sch965	-25	5320	1020	900

Prices for 1/7/97. Please note that mid prices are now used to calculate highs and lows.
Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

مكتب الأصل

* FINANCIAL TIMES Wednesday July 2 1997

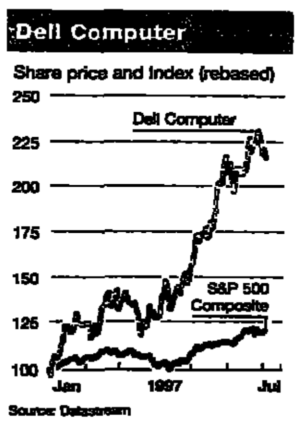
US shares advance as bonds rally

AMERICAS

Wall Street moved higher on the first day of the new quarter as large company stocks rallied and smaller technology stocks slumped in early afternoon trading, following a recovery in bond prices, *writes John Labate in New York.*

The Dow Jones Industrial Average gained 49.09 at 7,721.88. The broader Standard & Poor's 500 index rose 5.85 at 890.99.

Dell Computer



Source: Datastream

Leading winners in the Dow included Allied Signal, which rose $1⅝ to $85⅝, and Aluminum Company of America, up $1⅝ to $77. IBM rose 1\frac{1}{16}$ to $92 and Union Carbide surged $1¼ at 48\frac{3}{16}$.

Coca-Cola, which released second-quarter volume estimations in line with expectations, gained $1¼ to $68⅝.

Among the biggest losers in the Dow were Walt Disney, which fell $1⅞ to $78⅝, and Hewlett-Packard, down $1 to $55. Tobacco company stocks traded unevenly, with Philip Morris falling $⅝ to $43⅝ while RJR Nabisco edged up $$\frac{3}{16}$ to 33\frac{3}{16}$.

Technology stocks edged down as the Nasdaq composite index lost 4.6 to 1437.47. Similarly, the Russell-2000 index of smaller-company stocks lost 2.61 to 393.76. Leading the downward drift were Microsoft, off $1⅞ to $125 and the semiconductor leader, Intel, which lost $2¼ to 139\frac{11}{16}$.

Dell Computer, which was the biggest gainer in the S & P 500 for the first half of 1997, gave up some ground, losing $2¾ to 114\frac{11}{16}$.

Pharmaceutical producer Warner-Lambert surged ahead 6\frac{3}{16}$ to 130\frac{1}{16}$ while Abbott Laboratories lost $$\frac{1}{16}$ to 66\frac{11}{16}$.

Following Monday's court decision against its merger with retailer Staples, Office Depot plunged 3\frac{11}{16}$ or 20 per cent to $15¼. Traders were more kind to Staples, which was up $1⅛ or nearly 5 per cent to $24⅞.

Financial stocks edged higher as bond prices rebounded in morning trading. Among banking stocks Citicorp gained 2\frac{13}{16}$ to $123⅝ and BankAmerica added $2 to 66\frac{7}{16}$. State Street gained $2⅛ to $48⅝.

Brokerage firms were more mixed, as Merrill Lynch rose 1\frac{3}{16}$ to 61$\frac{3}{16}$, Charles Schwab gained $$\frac{5}{16}$ to $41¼ and Hambrecht & Quist lost $⅛ to $32¼.

● Canadian markets were closed for a public holiday

São Paulo surges ahead

SAO PAULO shot forward during a morning of hectic trade following the strong start on Wall Street and a dramatic rally for Telebras in ADR form. At midsession, the Bovespa index was up 305 or 2.4 per cent at 12,873.

After three straight sessions of decline, the bargain-hunters were said to have moved in aggressively.

Leading stocks were seen as undervalued and there was good buying of Telebras and Electrobras, both of which fell heavily on Monday.

Telebras, down more than 2 per cent in the previous session, jumped 2.9 per cent to R$168 while Electrobras surged 2.8 per cent to R$660. Iron ore giant Vale do Rio Doce added 1.9 per cent at R$24.25.

MEXICO CITY moved lower after a further round of profit-taking set in following the record high reached at the end of last week. Telmex dipped 0.06 pesos to 19.08 pesos. The IPC index was trading 37.26 lower at 4,495.23 at midsession.

CARACAS was also weaker at midsession with the IPSA index slipping 74.36 to 9,199.02. Santa Isabel, the supermarket chain, lost 8.00 pesos to 352 pesos after a leading broker's sell recommendation.

South Africa edges higher

A bond market rally and a strong futures market kept shares in Johannesburg pointing higher in a mostly mixed session – but only just. At the close, the all-share index was up 0.1 at 7,420.1 after another day of heavy volume.

Industrials were firm in spite of a profits warning from engineering heavyweight Murray & Roberts, and golds shrugged off further weakness for bullion to rally gently. Bonds and the rand rallied following a further relaxation for exchange controls.

The industrials index finished 18.2 higher at 8,808.7. South African Breweries added 75 cents to R140 and Richemont gained more than 3 per cent to a new high of R69.

The main black spot was Murray & Roberts which tumbled R1.65 or 15 per cent to R9.00.

Bullion continued to wilt, slipping below $334, but golds rallied, with the index adding 3.6 at 968.9. Vaal Reefs advanced R3.50 to R222.5 and Kloof put on 65 cents to R27.75.

Randgold, under pressure recently from both the bullion price and a lower-than-expected listing price for its resources unit in London, bounced R1.00 or 5 per cent to R21.

Firm $ helps Paris, Frankfurt up to peaks

EUROPE

A firm dollar, a strong start on Wall Street and an outbreak of position-taking by traders ahead of Monday's options expiry sent PARIS to a record close.

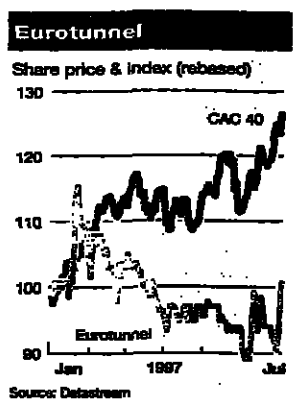
The CAC 40 index burst firmly through the 2,900 level to close with a gain of 85.78 or 3 per cent at 2,944.04, although much of the day's activity was said to be technical. Cash market volume was relatively unexciting at 16m shares.

Michelin turned in the day's top performance in spite of more bad news for the sector in the shape of French car sales in May which tumbled more than 30 per cent. Michelin gained FFr25.2 or 7.1 per cent to FFr378.1.

L'Oreal jumped FFr122 to FFr2,584 helped by a market outperformer recommendation from Goldman Sachs. Bancaire responded to further restructuring news – this time disposals – with a gain of FFr30 to FFr780. The surge in dollar stocks was led by Rhône-Poulenc with a rise of FFr11.90 to FFr251.90 with Total, up FFr26 at FFr620, not far behind.

Usinor continued to make rapid progress ahead of promotion to the CAC 40 later this month. Aided by a reiterated buy recommendation from HSBC James Capel, the shares rose FFr1.90 to FFr104.9.

Eurotunnel



Source: Datastream

Debt restructuring hopes got behind Eurotunnel which surged 45 centimes or nearly 7 per cent to FFr6.90 in heavy volume with 4.4m shares changing hands.

FRANKFURT looked for support to continuing dollar strength, futures-led buying initiated by the early gains on Wall Street and a firmer bond market. The Ibis-indicated Dax index picked up 67.95 or 1.8 per to a record high of 3,834.84. Turnover, however, edged back to DM13.2bn.

Chemicals were helped by a rash of buy recommendations. Hoechst rose DM4.89 to DM78.79 as CS First Boston and Salomon Brothers upgraded the stock and CS set a target price of DM90. The upgrades came after a presentation to analysts in London by the Hoechst chairman, Mr Juergen Dormann.

The upbeat mood spilled over to the rest of the sector. Bayer firmed DM2.65 to DM70.15 and BASF was marked DM2.40 up to DM65.90.

Porsche preference shares continued to perform strongly after SBC Warburg set a year-end target of DM3,000 and Lehman Brothers went one better with a target of DM3,600. The shares added to Monday's DM180 rise with another of DM130 to DM2,480.

Mr Christopher Will at Lehmans also raised his fiscal 1997 earnings per share estimate to DM60 from DM50 after Porsche confirmed that it had cleared the last major components supply bottleneck which would enable the company to meet strong demand for its Boxster model.

Other motor stocks moved ahead. VW, a good performer last week, added DM17.20 to DM1,339.20. Daimler-Benz rose DM2.50 to DM143.10 and BMW advanced DM6.50 to DM1,428.50.

FTSE Actuaries Share Indices

Jul 1						THE EUROPEAN SERIES		
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2531.46	2533.90	2534.05	2535.12	2535.80	2538.35	2538.55	2537.85
FTSE Eurotrack 200	2505.36	2510.51	2516.51	2515.23	2515.89	2518.46	2518.14	2523.07

	Jun 30	Jun 27	Jun 26	Jun 25	Jun 24
FTSE Eurotrack 100	2532.09	2535.20	2536.65	2511.55	2478.83
FTSE Eurotrack 200	2503.67	2509.54	2513.64	2491.92	2464.67

Base value 1000 (26/10/90). Highday: 100 - 2540.80; 200 - 2523.07 Lowday: 100 - 2530.58 200 - 2504.18. † Partial.
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AMSTERDAM reversed three days of declines to push the AEX index up to within a whisker of its all-time high. Royal Dutch had a good session, helped late in the day by US buying, and Heineken rallied strongly. At the close, the AEX index was up 9.76 at 871.31 in average volume.

Royal Dutch led the internationals higher on the back of a firmer dollar. It advanced Fl 4.60 or 4.5 per cent to Fl 106.7 and Unilever gained Fl 10.10 to Fl 423.3. Heineken, off nearly 6 per cent in two days, rallied Fl 8 to Fl 343 after rival brewer Grolsch denied that it was involved in takeover talks.

Among smaller caps, Oce eased Fl 1.20 to Fl 252 ahead of Friday's results.

ZURICH returned to the upward path after Monday's pullback, but the 34.2 advance in the SMI index to 5,654.8 left the market well short of the all-time high of 5,700.3 set last Friday. Blue chips, hard hit the previous session, managed to make up some of the lost ground.

In the pharmaceutical sector, Novartis bearers closed SFr15 higher at SFr2,347 while Roche certificates rose SFr95 to SFr13,300. Clariant was SFr27 higher at SFr972.

In the financial sector, UBS closed SF24 higher at SF1,694 on concerted buying after it released an option on its own shares. CS Group recouped SFr4.50 of Monday's 4.3 per cent tumble to finish at SFr192.

SAirGroup, formerly Swissair, rose SFr37 to SFr1,673 after its Sabena partner released better-than-expected first-half traffic results.

MILAN perked up late in the day, and while the Comit index registered a fall of 0.95 to 834.13, the real-time Mibtel index picked up 295 to close at 13,477.

Banks were among the day's best performers, led by Credito Italiano which jumped L192 at L3,299. BCI followed suit with a rise of L181 at L3,720.

Export-oriented clothes manufacturers stepped into the spotlight, boosted by the strength of the US currency. Benetton rose L1,095 to L28,374. Stefanel was L129 higher at L2,722 and Marzotto picked up L443 at L14,691. Industrials also performed well with Fiat L188 higher at L6,298 while Tim led the telecommunications stocks higher with a L156 rise to L5,623.

OSLO experienced a dramatic bounce for Nycomed on news of the planned merger with Amersham International of the UK. The stock surged NKr24.50 or 22 per cent to NKr132.5 in 4m shares traded.

MADRID closed at a record high as the general index moved up 8.23 to 608.58, although turnover was light at Pta83.4bn.

Endesa, the electricity group, rose Pta500 to Pta12,920, sharply outperforming the market in a session where sellers of the stock were thin on the ground. Analysts attributed the day's rise to good prospects for Endesa's autumn privatisation, the dividend payment next week and a forthcoming share split.

Written and edited by Michael Morgan and Jeffrey Brown

Tokyo slides 2.1% as financial scandal widens

ASIA PACIFIC

Tokyo fell nearly 2.1 per cent as the widening scandal in the securities industry fuelled new anxieties about the health of Japan's financial system and sparked a slide in Nikkei-225 futures, *writes Gwen Robinson.*

The Nikkei 225 average tumbled 429.44 to 20,175.52 after moving between 20,142.51 and 20,561.56.

Financial issues were heavily sold following media reports implicating the three other leading securities houses in the same racketeer scandal ensnaring Nomura Securities.

Nomura fell Y30 to Y1,550, Daiwa slipped Y1 to Y903, Yamaichi lost Y3 to Y338, but Nikko rose Y2 to Y707.

Hong Kong remained closed but an indicative index, reflecting Hong Kong shares traded in London, added to Monday's 16.01 fall to close down 51.52 at 15,145.27. HSBC eased 50 cents to HK$232 in trading on Seaq International in London. Shanghai and Shenzhen remained closed.

Declines overwhelmed advances 918 to 234 with 117 unchanged. Volume rose from 317m shares to an estimated 341m. The Topix index of all first-section stocks slid 24.43 to 1,529.38 and the capital-weighted Nikkei 300 was down 5.20 at 296.58.

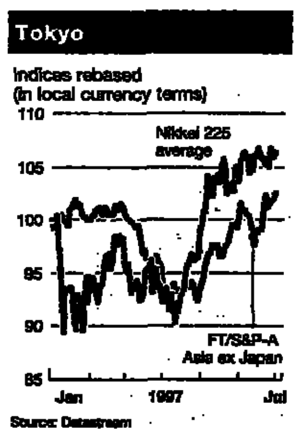
In London, the ISE/Nikkei 50 index rose 4.98 at 1,619.57.

Among the handful of advancing issues, some high-tech stocks continued to benefit from the firmer dollar. Tokyo Electron gained Y90 to Y5,570 and Advantest Y20 to Y8,820.

However, NEC, the day's most active issue, fell Y60 to Y1,540 following a ratings downgrade by Nomura.

Other blue-chip exporters were mixed. TDK rose Y50 to Y8,460 but Sony shed Y60 to Y9,930 and Fujitsu lost Y30 to Y1,560.

Tokyo



Source: Datastream

Carmakers mostly tumbled, with Toyota down Y50 at Y3,330 and Honda Y80 at Y3,370. Mazda bucked the trend, hitting an intraday high for the year of Y418 before closing at Y415, up Y15, on reports that it will raise the utilisation ratio at one of its main Japanese factories to step up exports of its new 626 model to Europe.

Minolta rose Y21 to Y739 while Nikon slid Y60 to Y1,870. Japan Airlines continued to gain ground after recent declines, rising Y9 to Y530.

Daiichi Pharmaceutical fell Y30 to Y1,990 following reports of deaths caused by a cancer-treatment drug. Yakult Honsha, which also makes a version of the drug, fell Y40 to Y1,220.

In Osaka, the OSE average slipped 273.01 to 21,114.04 and volume eased to 12.4m shares.

SEOUL jumped 1.7 per cent as June's monthly trade surplus, the first since December 1994, fuelled active buying interest across the board. The composite index closed 12.63 higher at 758.03, up from the day's low of 744.67.

The improved trade figures sparked active buying interest among blue chips, including Samsung Electronics which rose Won500 to Won71,000 and steelmaker Posco which added Won2,400 to Won66,000.

LG Electronics recorded a new 1997 high of Won17,800, up Won1,300, on the back of active foreign buying interest. Brokers said that healthy buying orders spread into financial shares, especially in securities houses, taking the securities sub-index up 6.7 per cent.

Cho Hung Bank rose Won270 at Won and Daewoo Securities rose to its upper limit at Won17,300, up Won1,200.

JAKARTA notched up another record close, adding 7.06 or 1 per cent at 731.62 on the composite index in good two-way turnover of Rp659bn. Telkom and Sampoerna again attracted heavy buying. Sampoerna rose 5.4 per cent to Rp9,775 in 2.9m shares while Telkom was last traded at Rp4,075, up Rp100.

SYDNEY ended easier but well above morning lows following better-than-expected May trade figures. The All Ordinaries was down 4.7 points at 2,721.2 after a session low of 2,701.1.

BHP gained 4 cents to A$19.52 while Rio Tinto came off 11 cents to A$22.47. NAB added 5 cents at A$19.02 but banks were mostly dull.

Commonwealth dipped 16 cents to A$15.84. Westpac 6 cents to A$7.91 and ANZ 4 cents to A$9.86. News Corp gained 12 cents to A$6.47.

WELLINGTON followed up Monday's 2.4 per cent surge to an all-time best with a steadier performance which left the 40 capital index down 11.10 at 2,490.86. Dealers said profit-taking was minimal and that sentiment remained firm.

NZ Telecom was the most actively traded stock, adding 5 cents at NZ$7.55. Carter Holt Harvey came off 11 cents to NZ$3.70. Air New Zealand A added 6 cents at NZ$3.14.

MANILA recovered slightly at the close on late buying after drifting in negative territory most of the session. The composite index ended 6.33 higher at 2,815.54 after hitting an intraday low of 2,786.09. Turnover was low at 1.5bn pesos.

KARACHI powered 1.8 per cent higher, mainly on demand for PTCL, Hub Power and a few other blue chips which were bought by local and foreign investors. The KSE-100 index rose 27.57 to end at 1,593.30. PTCL rose Rs0.75 to Rs31.75 and Hub Power Rs1 to Rs41.90.

BOMBAY maintained some of the momentum that took the market up 3 per cent on Monday as follow-through buying took the BSE-30 index up another 44.77 to a 20-month high of 4,300.86.

Analysts noted that demand continued to be focused on cement, financial and multinational stocks.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 30 1997								FRIDAY JUNE 27 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	240.82	1.4	214.54	174.19	218.17	213.80	0.9	3.60	237.47	211.81	171.94	214.36	211.79	240.82	188.44	201.44
Austria (24)	192.46	0.6	171.46	139.21	174.36	174.25	0.9	1.91	191.36	170.66	138.56	172.74	172.64	200.52	174.70	183.92
Belgium (26)	251.36	–0.2	223.93	181.82	227.72	222.85	0.1	3.21	251.99	224.76	182.46	227.47	222.72	255.67	206.70	209.16
Brazil (30)	296.76	–1.3	264.38	214.65	268.85	588.09	–1.2	1.26	300.60	268.11	217.65	271.35	595.10	308.71	170.26	178.13
Canada (112)	208.57	0.3	185.81	150.86	188.96	208.36	0.1	1.80	208.02	185.54	150.62	187.78	208.14	212.98	154.12	159.70
Denmark (32)	384.98	0.2	342.97	278.47	348.77	347.19	0.5	1.47	384.26	342.73	278.23	346.86	345.54	392.72	303.09	308.09
Finland (28)	283.46	–0.5	252.53	205.03	256.80	308.99	–0.2	1.78	284.89	254.10	206.27	257.16	309.73	287.97	186.67	191.83
France (90)	231.42	–1.3	206.17	167.40	209.66	213.13	–1.0	2.65	234.43	209.10	169.74	211.62	215.37	235.40	165.94	197.80
Germany (58)	216.36	–0.7	192.75	156.50	196.01	196.01	–0.4	1.44	217.95	194.39	157.80	196.73	196.73	219.98	168.70	172.32
Hong Kong (66)	539.29	0.0	480.45	390.08	488.57	536.41	–0.0	2.82	539.23	480.95	390.43	486.76	536.43	539.29	407.55	431.69
Indonesia (27)	250.17	1.2	222.87	180.95	226.64	373.16	1.2	1.71	247.12	220.41	178.93	223.07	368.61	253.04	183.62	214.14
Ireland (17)	350.24	–0.1	312.02	253.33	317.30	327.09	0.0	2.94	350.47	312.59	253.76	316.36	327.11	354.64	270.08	286.95
Italy (59)	95.62	–1.6	85.18	69.16	86.63	121.50	–1.4	2.08	97.21	86.71	70.39	87.75	123.29	98.92	73.26	81.90
Japan (485)	139.62	0.6	124.39	100.99	126.49	100.99	0.5	0.78	138.73	123.74	100.45	125.23	100.45	156.65	107.57	156.65
Malaysia (107)	510.32	0.7	454.63	369.13	462.32	496.07	0.8	1.39	506.78	452.00	366.93	457.45	492.37	660.85	506.78	559.44
Mexico (27)	1590.17	–0.6	1416.65	1150.21	1440.62	13829.74	–0.5	1.35	1598.88	1426.07	1157.67	1443.27	13902.03	1598.88	1110.35	1233.34
Netherland (19)	395.84	–1.7	352.65	286.32	358.61	353.96	–1.4	2.20	402.55	359.04	291.47	363.37	356.99	404.39	279.88	297.67
New Zealand (14)	94.94	2.5	84.59	68.67	86.01	74.39	2.6	3.91	92.63	82.62	67.07	83.61	72.47	95.60	79.04	80.09
Norway (41)	312.85	–0.1	278.71	226.29	283.42	310.86	0.3	1.96	313.00	279.17	226.63	282.54	310.01	321.23	246.04	250.88
Philippines (22)	167.19	–1.0	148.95	120.94	151.47	219.77	–1.1	0.86	168.91	150.65	122.30	152.47	222.10	219.44	148.37	214.14
Singapore (42)	384.92	0.9	342.91	278.42	348.72	253.62	0.9	1.20	381.46	340.23	276.20	344.34	251.24	448.01	360.08	416.98
South Africa (44)	362.44	–0.5	322.89	262.16	328.35	359.29	–0.1	2.41	364.24	324.87	263.73	328.79	359.55	370.12	301.49	362.38
Spain (35)	263.31	–1.0	234.58	190.46	238.55	293.38	–0.8	2.25	266.07	237.31	192.66	240.17	295.81	267.66	171.91	183.29
Sweden (49)	482.82	–0.6	430.14	349.24	437.42	552.69	–0.5	1.87	485.89	433.38	351.81	438.60	556.30	485.89	334.35	367.35
Switzerland (35)	310.59	–2.1	276.70	224.66	281.38	280.73	–1.5	1.19	317.24	282.95	229.70	286.37	284.91	317.50	231.69	244.10
Thailand (43)	56.74	–3.7	50.55	41.04	51.41	57.05	–3.6	5.47	58.95	52.58	42.68	53.21	59.20	172.92	47.55	166.31
United Kingdom (212)	302.01	–0.6	269.05	218.45	273.60	269.05	–0.8	3.76	303.96	271.11	220.09	274.38	271.11	306.21	229.83	233.41
USA (647)	358.45	–0.3	319.34	259.28	324.74	358.45	–0.3	1.72	359.40	320.56	260.23	324.43	359.40	363.96	254.79	272.73
Americas (816)	328.10	–0.3	292.30	237.32	297.24	276.32	–0.3	1.71	328.95	293.40	238.18	296.94	277.05	332.73	233.09	249.05
Europe (726)	269.04	–1.0	239.69	194.61	243.74	249.71	–0.8	2.58	271.75	242.38	196.76	245.30	251.78	273.08	204.71	211.52
Nordic (150)	409.44	–0.4	364.76	296.16	370.93	407.21	–0.2	1.81	411.22	366.78	297.75	371.20	408.12	412.13	291.45	304.93
Pacific Basin (852)	157.96	0.6	140.72	114.25	143.10	115.48	0.5	1.23	156.96	139.99	113.65	141.68	114.87	169.35	127.18	169.35
Euro–Pacific (1608)	204.32	–0.3	182.03	147.79	185.10	168.15	–0.2	1.97	204.85	182.71	148.32	184.92	168.51	206.60	173.56	186.81
North America (759)	349.19	–0.2	311.09	252.58	316.35	348.46	–0.2	1.72	350.03	312.20	253.44	315.96	349.32	354.37	248.65	265.75
Europe Ex. UK (514)	244.67	–1.2	217.97	176.98	221.66	232.69	–0.9	1.94	247.60	220.84	179.28	223.51	234.70	248.77	185.85	194.16
Pacific Ex. Japan (397)	317.13	0.6	282.53	229.39	287.31	279.16	0.5	2.68	315.21	281.14	228.23	284.53	277.78	320.65	268.97	287.99
World Ex. US (1821)	207.89	–0.3	185.21	150.37	188.34	172.83	–0.2	1.96	208.43	185.90	150.91	188.14	173.20	210.13	176.94	188.01
World Ex. UK (2256)	251.26	–0.2	223.85	181.75	227.63	221.53	–0.2	1.64	251.82	224.60	182.33	227.31	221.98	252.98	199.58	212.20
World Ex. Japan (1983)	315.46	–0.4	281.03	228.18	285.79	305.26	–0.4	2.06	316.87	282.62	229.43	286.03	306.47	317.59	233.10	245.98
The World Index (2468)	255.67	–0.3	227.78	184.94	231.63	226.10	–0.2	1.84	256.34	228.64	185.61	231.40	226.63	257.44	202.32	214.14

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PLEASE NOTE: Amendments to indices 30/6/97 applied to Italy, related regional indices and The World Index. CONSTITUENT CHANGES 1/7/97: Name changes: Finning Ltd to Finning International (Canada) and Philip Environmental to Philip Services (Canada). CONSTITUENT CHANGE WITH EFFECT 2/7/97: Deletion: Great Western Financial (USA). Latest prices were unavailable for this edition.

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Information Technology

Wednesday July 2 1997

The Compaq-Tandem merger points to a new trend. Tired of problems of incompatibility, customers are telling vendors they want to rely on one or two suppliers able to provide a full range of integrated products and services, writes **Paul Taylor**

Purchasers plump for the 'one stop shop'

The financial services industry is among the IT industry's most important customers. Under intense pressures from competitors, financial companies want the latest technologies. Companies are also taking a broader, 'enterprise view' of their IT operations: increasingly, they are looking for 'end-to-end' equipment suppliers to meet their network requirements

The decision announced by Compaq Computer last week to buy fellow US manufacturer, Tandem, in a share swap deal valued at $3bn, has highlighted the fundamental restructuring now taking place in the data processing industry.

The deal, designed to transform Compaq from being the world's biggest personal computer manufacturer into the overall leading computer-maker by the year 2000, is the latest in a string of multi-billion dollar acquisitions over the past six months in the computer and networking equipment industry as vendors scramble to offer their customers a 'one-stop-shop'. It will enable Compaq, already the leader in the personal computer and PC server markets, to extend its product range into high performance enterprise servers.

Even before last week's announcement, Compaq, which recorded sales last year of $18.1bn, had set itself a goal of more than doubling sales to $40bn by 2000. The company, which enjoyed 1996 revenues of $1.9bn, is best known for its fault-tolerant computer systems. These are guaranteed not to fail and for this reason handle highly critical functions, including 80 per cent of the world's automatic teller machine transactions.

The deal will allow Compaq to compete, at almost every level of computer power, with the world's biggest computer companies, including International Business Machines (IBM), Hewlett-Packard and Digital Equipment.

The acquisition talks, according to Mr Eckhard Pfeiffer, Compaq's chief executive, grew out of a technology partnership between the two companies. For the past year, Tandem and Compaq have been collaborating on the development of 'clustering' technology which hooks several servers together to increase the performance and reliability of a corporate system.

Clustering is seen as a key technology making it possible for computers built around Intel's low cost microprocessors and Microsoft's Windows NT operating system to compete against proprietary-based systems for sales in 'mission critical' corporate applications.

"As we discussed industry and product directions we realised we had a tremendous joint opportunity," said Mr Pfeiffer, who describes the merger as 'a perfect match'.

The acquisition will quickly boost Compaq's ability to address a much broader market for 'enterprise class' computers, the company claims. As well as giving Compaq an entry into this market for powerful computer systems, the deal will put it in the forefront of electronic commerce technology, where Tandem has been a pioneer, and bring about a doubling of Compaq's sales force to about 8,000 people.

Last week's deal with Tandem follows reports of aborted acquisition talks between Compaq and Digital Equipment, and with Gateway 2000, a rival PC company.

Most analysts agree that Tandem appears to be a better fit with the Texas-based PC manufacturer. "Tandem offers networking expertise, software-based transaction processing, and a vertically focused direct sales and services organisation," an assessment of the deal by researchers, the Yankee Group, noted.

"This fits well with Compaq's premium pricing, quality brand image and push towards high-end clustered servers. Compaq had been trying to make a decision between two radically different alternatives, the consumer and commercial markets. This marks a clear decision [to move] towards corporate clients."

Compaq has not been the only PC vendor to face this dilemma. The continuing pressure on PC prices and margins, coupled with new competition, particularly from Japanese and other electronics groups from the far east such as Korea's Samsung, has meant that traditional PC manufacturers have had the choice of either cutting costs and trying to achieve huge sales volume growth, or of expanding into higher margin segments of the industry, such as portables and servers.

Although Compaq has managed to hang on to its title as the world's biggest maker of personal computers, it has been losing share to rivals such as Dell, which sells inexpensive machines directly to companies instead of through third-party distributors. While Compaq's US sales of PCs grew a brisk 31.9 per cent in the first quarter of this year, this was less than half the rate of number three ranked Dell and number four ranked IBM, according to market researcher Dataquest.

Personal computers, which cost around $1,000 for an entry level machine in the US, have generally become less profitable as their makers have cut prices to match lower costs and to encourage continued demand. To offset this decline in profitability in their core products Compaq, Dell Computer and other industry leaders have sought to expand their product range and develop higher margin products.

Dell, for example, has used its direct sales model and build-to-order manufacturing operations to slash inventories and cut costs to the bone. At the same time, the company has made a highly successful assault on the portable market and has recently targeted the server market – Compaq's traditional stronghold – with low price, highly featured products, forcing Compaq to respond with deep price cuts.

Just as Compaq's purchase of Tandem puts it in a position to challenge IBM as the leading full-range or 'one-stop-shop' computer vendor, similar moves are under way in the networking equipment sector where rival vendors are keen to pursue Cisco, the clear market leader. 3Com has spent $6bn on the purchase of US Robotics, the modem maker, Ascend has moved to buy Cascade, and there have been a number of other big-ticket deals.

Cisco itself has built its end-to-end networking product portfolio through a stunning series of acquisitions in recent years, culminating in its $4bn purchase of Stratacom, 15 months ago. As Mr John Chambers, Cisco's chairman and chief executive, observes, *(see view from the top, overleaf)*, customers are increasingly demanding that information technology suppliers provide a full range of products and an integrated package of services.

After flirting with so-called open systems and struggling with the problem of incompatibility associated with using equipment from a wide range of vendors, they are telling companies such as Cisco and Compaq that they want to move back towards relying on just one or perhaps two main IT suppliers.

As Mr Chambers, a former IBM employee himself notes, they want the type of comfortable relationship that they once had with IBM, but without the arrogance and high-priced proprietary technology that were once associated with doing business with 'Big Blue'.

According to Mr Chambers, several of Cisco's leading edge customers in New York approached him early last year saying they wanted Cisco to be their "whole network vendor".

They told him they wanted Cisco to make the products "work even better together than they do today", that they wanted Cisco to be able to design the network and help to solve problems across the network, and perhaps most importantly to help them focus on those business activities where they could recoup their investment.

The reasons for this shift are simple. First, ever-shorter IT product life-cycles mean that many corporate IT departments simply cannot keep pace with changes. In addition, in the networking sector in particular, systems are becoming very complex at a time when skill shortages are greater are, therefore, increasingly dependent on their suppliers to design, install and manage their internal systems.

Second, some of the IT industry's most important customers, such as the financial services sector, are under growing pressure to speed up development cycles and speed up time-to-market.

They cannot afford to spend time evaluating new systems and sorting out incompatibilities. They want the latest technology and they want it to work immediately.

Third, companies are beginning to take a broader 'enterprise wide' view of their IT operations. They are integrating departmental networks and geographically dispersthe wider Internet.

Fuelled by the phenomenal growth of the internet and the widespread adoption of standards-based internet technologies, they are building intranets and extranets to tie together their internal operations and those of their suppliers and customers.

In order to minimise the risks associated with intranetworking, they are looking for 'end-to-end' equipment suppliers that can provide them with the all the network 'plumbing' – the hubs, bridges, routers and switches – and the network management software which they need to build and run their systems.

As the recent spate of deals show, these pressures are already contributing to a wave of consolidation within the computer and networking industries, and the birth of a new group of 'super' broad-range equipment suppliers whose global reach, high volumes and deep pockets insulate them from the industry's cyclical downturns.

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INTERVIEW: JOHN CHAMBERS, president of Cisco Systems, talks to Paul Taylor

Big shift in corporate attitudes on electronic commerce

Network commerce is going to change the competitiveness of all industries, says John Chambers, head of Cisco Systems. Companies – or countries – which fall behind in this area will not remain competitive

Cisco Systems has a market capitalisation of around \$40bn, but even though the networking equipment market leader provides much of the 'plumbing' for the internet, it is barely known outside the information technology sector and Wall Street.

Founded in late 1984 by a small group of computer scientists from Stanford University who wanted an easier way to connect different types of computer systems, the company shipped its first product – a network 'router'– in 1986. Since then, the explosive growth of corporate networking and the internet, coupled with a string of acquisitions, has catapulted Cisco into the big league.

In just the two years since Mr John Chambers took over as president and chief executive, he has grown the company from \$1.2bn in annual revenues to its current run-rate of more than \$6bn and turned Cisco into the third-largest company traded on the Nasdaq stock market.

"This business used to be one where people focused on products and technology," says Mr Chambers, who previously worked for Wang laboratories and IBM. "What has changed in the 18 months is that customers have really started to focus on an end-to-end solutions - and a (single) vendor, or very few vendors, to do that."

He believes this trend towards 'one-stop-shopping' is being driven by a number of factors including the realisation that the purchase cost of a network only represents a fraction of the total cost.

"The cost of the network is not the hardware and software you buy, it's how you do the system integration and get various vendors to play together, it's how you do the systems administration that goes with it, it's how you do problem determination," he says.

At the same time, he says customers tell him that they cannot hire people quick enough to build and operate their complex enterprise networks – and that, from a cost-perspective, each vendor they add probably costs 10 per cent to 15 per cent more.

The second big change is in corporate attitudes to technology, he says. "I used to be the most requested speaker for home office [corporate headquarters] visits, talking about the strategy, the company, the industry. Behind me were my best technicians, either engineers or people who really understood how the technology worked.

"Today, the number one requested speaker is my chief information officer. They want to know how *we* are applying the technology because we have a 22 per cent increase in productivity for the whole company, last year alone, in our implementation of the internet and web-based architecture."

A year ago, he says, no-one would have invited Cisco to talk to the board of directors unless it was on how to manage faster growth. Now, he receives invitations to talk to big company boards every other week.

"We are seeing senior management really sit up and realise what this can really do for, or to them. What customers are saying now is that the technology is nice, but they are finally beginning to focus on solutions.


Chambers: a passionate advocate of electronic or network commerce, especially business-to-business applications

"People understand this is the major productivity tool for the next decade in business," he says. Many companies have also realised that exploiting the opportunities provided by enterprise networking will determine how much they grow, or perhaps even their survival.

Mr Chambers also insists that it is not just service sector companies, such as banks, which are beginning to exploit internetworking technologies.

"Boeing was able to build their 777 plane two years earlier than they would have been able to without networked integration – it was built entirely without paper: they carved it into sections, put teams together round the world and made them work very effectively together. And they probably had a 20 to 30 per cent increase in productivity as well."

The Cisco chief executive says that companies that implement internetworking can expect a huge payback. "Sixty per cent of the customers who have done internetworking applications in the last year, saw a major payback within a year, 35 per cent said it was too early, and only 5 per cent didn't see it.

"At Cisco, our average productivity increase by using the internet is between 50 and 100 per cent. This last year we saved \$350m – and that's a conservative number – on an expense base of \$1.5bn."

Such productivity gains are crucial to Cisco if it is to retain its market leadership. "We have to bring down the price performance of our products 25 to 30 per cent a year," says Mr Chambers, "if we don't do it somebody else will.

"We don't want to fall into the trap that IBM and others made of charging what I consider were inappropriate prices because they had too large a market share. Then, when people such as Cisco came along, they took the market from them. Our philosophy will be to be very competitive about meeting customer expectations. We will do that first because we think it is right, but candidly we also do it because it is survival. I have learned that the hard way with two companies that didn't understand that."

Cisco has achieved its 20 per cent productivity-gain through a number of internet-related initiatives. For example, most of Cisco's customer service and support operations have been switched to the internet, saving dramatically on headcount, while maintaining or improving customer satisfaction.

Cisco also uses the internet for recruitment. "Sixty per cent of the people who join Cisco join because they have a friend at Cisco and they use the internet to access what jobs are available," says Mr Chambers, "That's a huge drop in recruiting costs."

Similarly, customer orders are increasingly placed interactively over the internet. Sixteen per cent of Cisco's orders now come via the net, up from zero a year ago.

Indeed, Mr Chambers is a passionate advocate of electronic or network commerce, and he believes the forecasts that electronic commerce could reach \$20bn to \$50bn by the year 2,000 are far too conservative. He says Cisco itself will be selling the equivalent of \$2bn-a-year of equipment via the internet by the end of this year. "If we are successful as a company, we could do \$10bn to \$15bn by the year 2000," he says.

"What a lot of people focus on is the consumer network commerce, when 90 to 95 per cent will be business-to-business. But let's assume the number is \$500bn for the purposes of discussion. The 10 per cent that is going to be consumer is going to be a \$50bn number and that is still big, that's what people write about, but that's not where the leverage is.

> 'Forecasts that electronic commerce could reach \$20bn to \$50bn by the year 2,000 may be far too conservative'

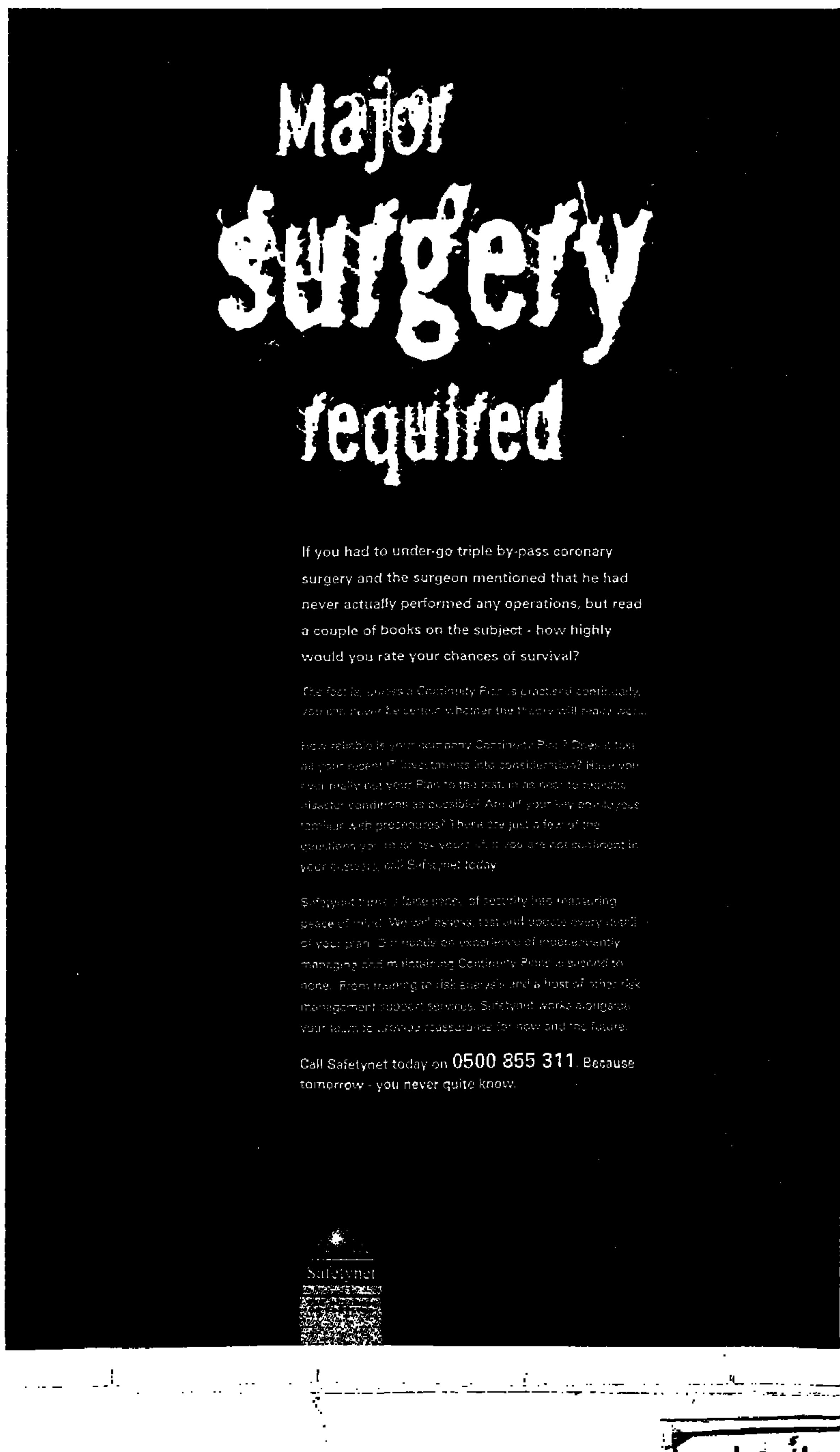
"What it is really going to be big is business-to-business *(see report, page six)*, and you will see virtual network companies start to evolve, truly global virtual companies. Companies will tie together their own operations in an enterprise network, with those of their customers, suppliers, partners and employees in ways that have never been done before.

At Cisco, this is already becoming a reality. "We not only do just-in-time manufacturing which is an 'old' concept," says Mr Chambers. "Our suppliers interface with us in such a way that if an order is placed with us, our suppliers know immediately."

Eventually, he envisages "a truly virtual manufacturing operation with products coming 'every which way' out of that operation. It makes it very easy for you and there will be huge efficiencies for me – and it will be all handled interactively."

Network commerce is going to change the competitiveness of all industries and people are beginning to understand that, says the Cisco chief. "Companies – or countries – which fall behind in this area will not be competitive.

"If I make a customer-call, I take a card and look down to see if they have an internet address: if they don't, I know it is going to be a tough call. In the US, it is literally socially unacceptable not to have your e-mail address on your ID card, even if you don't use it."



INTERVIEW: LARS NYBERG, head of NCR, talks to Paul Taylor

How the re-born NCR aims to become a 'world class company'

Staying ahead in the highly competitive data warehousing market is NCR's biggest technology challenge. It is also plans to exploit the shift towards electronic commerce

Insiders describe NCR as "the oldest high-tech startup," and say the 113-year-old group has gone through a re-birth since it was spun off again from AT&T at the start of the year.

It is an description that Mr Lars Nyberg, NCR's European-born chairman and chief executive, is comfortable with. "This company has been through a very turbulent five to seven years with poor financial results.

"We were in some real trouble in 1995. In 1996 we came out of a very deep black hole, so going public on January 1 [when the group was spun off again by AT&T] was the culmination of what we call the first phase, the turnaround, and it was a sort of re-birth for this company."

But despite moving from a net loss of \$2.28bn in 1995 to a near break-even loss of \$109m last year, Mr Nyberg insists there is still much to be done. "We have three phases left before we are out of the woods," he says.

"I have said all along that if you lose \$2m a day as we did in 1995 for a whole year, including Saturdays and Sundays, it will take you some time before you are a respected, profitable, solidly performing, consistent company. We are not that yet – we will become it, but we are not that yet."

He says NCR's employees did a very good job last year "digging us out of that black hole," but he adds: "My biggest fear has been a degree of complacency . . . for me, personally, this year is as crucial as 1996. We have to see some growth this year, we have to see further improvements over last year."

Over the next three years he has set a growth target of between 9 and 12 per cent annually. That will be a tough challenge for NCR whose revenues actually declined by 12 per cent in the first quarter. "I can explain currency and all that stuff for a while," says Mr Nyberg, "but it still remains four or five per cent decline of revenue in a 'real apples for apples' comparison."

While it is relatively easy to take out expense and improve margins, Mr Nyberg acknowledges that getting a growth mentality into a company is "a totally different challenge."

"The good news is that we have had five consecutive quarters, including the first quarter of this year, with order growth which indicated to me that we are on the right track."


Nyberg: 'We must anticipate customers' business challenges and problems – and adapt our technology to provide solutions'

As part of that process, NCR's resources have been focused behind three key technology areas playing to its historic strengths: bank automated teller machines *(see report, page 9)* and the financial services industry; point-of-sale (PoS) operations in the retail sector; and data warehousing, where NCR acquired Teradata in 1992.

"I'm a strong believer that you have to be number one, two or possibly number three in the world if you compete in a global business," says the NCR chief executive. "We clearly compete in a global business."

Indeed, despite stumbling in the ATM market in 1995, NCR is still the clear market leader in that segment, number two in the PoS business and number one in data warehousing.

The strategy to achieve and build on this position breaks down into three stages.

Phase one last year was the turnaround, phase two this year and next is profitable growth; and phase three is creating what Mr Nyberg calls creating a world-class company.

"We have to become world class in everything we do," he says. "Our inventory turns, our delivery schedules, our quality, all that has to be world class."

But Mr Nyberg also defines a fourth phase in NCR's renaissance – 'thought leadership'. He believes that if NCR is to become really successful in the long term, it must anticipate its customer's business challenges and problems and adapt its technology to provide solutions.

To illustrate the concept of thought leadership he gives an example: "The environment for the banks is changing dramatically, most major banks, if not all major banks and their top executives, are concerned about the future of the bank. What is banking going to look like in the next five or six years? How does it affect the banks? Who do they go and talk to about that? If they 'think NCR' (plus some others), then you are recognised as a thought leader.

"For example, the branch network has been seen as an asset for 50 years, now it is a liability. We are marketing something we call 'the virtual branch', based on our self-service equipment, both ATMs and inquiry terminals.

"But we don't only market those boxes, we market the whole concept, we even design the virtual branch for

Continued on page 12; see also reports on virtual finance, page 7, future of ATMs, page 9

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E-mail: Mike.Wiltshire@FT.Com

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NEW WEB SITE COMPETITION

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A chance to win prizes in five areas of business

Entries are now invited via the World Wide Web: the closing date is July 31

The search continues to find the FT Business Web Site of the Year. Already, a wide range of entries have been made since the competition was launched in last month's FT-IT Review.

The FT is looking for organisations which have used their web site to achieve commercial advantage in their particular market and can display evidence of the following:

- Business transformation.
- Innovation.
- Measurable financial benefits.

There will be category prize winners and an overall winner which will be named as "FT Business Web Site of 1997".

Competition winners will be announced at an awards ceremony in November 1997. Details of the winning entries will also appear in the Financial Times.

Competition entries are invited via the web address for the following categories:

- Finance.
- Large organisations, (excluding those in the finance sector).
- Small and medium-sized organisations, employing under 250 employees.
- The public sector.
- Not-for-profit organisations.

Full details of the competition plus a question-and-answer facility for potential entrants and an entry form can be found at the web address, below. The competition is be open to companies in and outside the UK that fall into the categories, listed above.

Entrants' web sites must have been established before January 1, 1997. Entrants' claims must be capable of being substantiated, if shortlisted, and candidates may be required to present to the judging panel, either in person or by videoconference, in September.

Details of the competition, which is sponsored by UUNET UK, Europe's largest Internet service provider.

For full competition details, see the web site: http:/www.uunet.pipex.com/events/ft/

FINANCIAL SERVICES • By Paul Taylor

The race is on

Financial service companies are rushing to offer customers electronic access to products and services, as new entrants and computer technologies erode traditional market boundaries

The global financial service industry, already one of the biggest spenders on information technology, is in the midst of a IT revolution which is reshaping products and delivery channels and opening the gates to a flood of new entrants.

Technology itself is ushering in a whirlwind of change in an industry where information is the business and where the efficient and effective use of IT can mean the difference between survival and decay.

"Financial services are moving out of the high street and into cyberspace and the realms of electronic communication," says Mr Steve Leegood, director of international finance business for Logica, the international computer services group. "New channels to market are emerging – telephone banking is increasing in sophistication, while electronic channels, such as the internet and home/office banking software, are gaining ground."

Meanwhile, as a recent paper prepared for International Business Machines noted: "Technology has reduced both the role and value of financial intermediaries, collapsing margins in many banking businesses including brokerage, corporate lending and global custody."

The implications of these changes are profound. As Mr Walter Wriston, the former chairman of Citicorp, observed: "The banking business used to have about 70 per cent of the financial assets of the world. Now we have 30 per cent. Do you know any industry that went from 70 per cent to 30 per cent market share and survived?"

Such realisations are prompting a redrawing of the financial services landscape. As the IBM paper notes: "Investment banks are sharing trading models and distributing research over the internet; electronic markets are being established by exchanges and other institutions; new direct banks are appearing almost daily, offering a full range of services by phone, ATM or PC. And brokerage firms are offering online securities trading and access to real time market data and sophisticated investment management tools."

Financial institutions are being forced to spend heavily on IT in the late 1990s not just to reduce costs, but to maintain an edge in an increasingly competitive market where new entrants, new channels to market and new technologies such as smartcards and the Internet are eroding many traditional boundaries.

In Britain, the results of an annual survey, just published by Price Waterhouse Management Consulting, show that the financial services sector plans to spend more on IT than for several years – despite growing concern about the failure rate of IT projects.

The survey, conducted earlier this year among senior IT executives in leading UK financial institutions, found that almost two-thirds were planning to increase their IT spending and that the overall level of IT spending had risen to nearly 17 per cent of average total costs – and almost 25 per cent among investment banks.

Perhaps not surprisingly, 'ensuring effective delivery of systems' and the need to improve the systems development process have become the top priorities for many financial institutions.

"The pressures on IT are set to grow significantly, created by more demanding users and the imminent 'double trouble' of the year 2000 date issue and European Monetary Union," says Mr Alan Johnson, a partner at Price Waterhouse. "The fixed nature of the timescales and the vital nature of the changes will turn the screw even tighter."

Meanwhile, competition for the traditional industry participants is intensifying. This reflects a number of factors including the deregulation of the industry and the impact of computer and network technologies which have helped render old geographic and other boundaries meaningless.

Today, currency and other commodity traders operate around-the-clock passing the book from one office to the next in a never-ending race with the spinning world. Similarly, pension funds balance their portfolios by investing around the globe while retail and merchant banks have followed their industrial and commercial customers overseas in search of new markets. Banks, in particular, are facing serious challenges from new entrants including banks from other geographies such as Citicorp and from non-banks keen to exploit the power of their brand names.

In the US, companies such as AT& T and General Motors have come from nowhere to grab a large chunk of the credit card business while, in the UK, Marks & Spencer, Sainsbury and Virgin have all recently entered the financial services market.

"Retailers, car manufacturers and airlines all know and exploit the value of branding," notes Unisys, the computer group. "They have established consumer loyalty in their original operations and are using it aggressively now to enter financial services markets.

"As non-financial companies enter the market with investment and other products, their name alone will prise customers away from traditional providers . . .few, if any, financial services organisations have the same strong brand image that will keep customers loyal."

Unisys argues that these new entrants have one other key advantage: they understand their customers' lifestyles. "Retailers are now building databases that will enable them within a few years to target specific marketing messages and propositions to clearly identified groups of individuals who share the same lifestyle vales.

"To retain profitable customers, attract new ones and improve income, financial organisations must adopt the same branding and marketing techniques."

This is one reason for the surge of interest among financial institutions in the data warehousing technologies developed by companies like NCR, the data warehouse market leader.

Financial institutions, many of which are laden down with costly branch networks and ageing infrastructure, also face the risk that new entrants will 'cherry pick' their best and most active customers using low cost, high-tech delivery channels such as the Internet.

As a report published by the London-based Centre for the Study of Financial Innovation last month, noted: "The internet has the potential to bring about revolutionary change by transforming the way business is conducted, by providing a new means for delivering services and by imposing a new set of economies on the finance industry, particularly on the retail side."

The CSFI report suggests the internet could do this by:

- Stimulating more intense competition in the financial services market, for example by admiting new entrants, making pricing transparent and raising service expectations to new levels.
- Tilting the market in favour of service suppliers with technology and marketing know-how, and against those with traditional skills and cost structures.
- 'Empowering' the customer by giving him direct access to market information and providing him with the means to execute his own deals.
- Removing geography as a constraint on the finance business – floor-based markets, bank branches, national preferences – and creating an industry that exists almost entirely in cyberspace.

"Because the internet will improve the convenience and reduce the cost of financial services, the main beneficiary of these changes should be the consumer. In an internet world, he would

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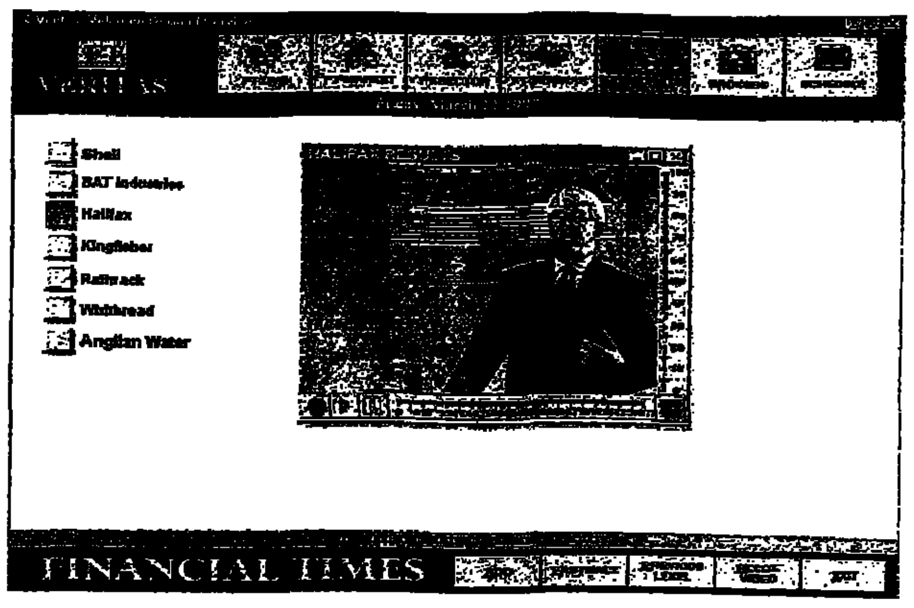

The FT Veritas screen offers live video of analysts' meetings and brokers' morning briefings

New desktop video service for institutional investors

A new video-on-demand service for institutional investors delivers live and indexed coverage of corporate analysts' meetings and brokers' morning briefings direct to existing desktop PCs. It has already attracted more than 20 of the UK's largest fund managers, representing around 65 per cent of the UK funds under management.

The FT Veritas service, launched in April, aims to enhance investor relations for both large and medium-sized quoted companies. So far, companies with a combined market capitalisation of £200bn have contracted with Veritas to film their analysts' meetings.

The service is also making headway in the stock broking community. "It is promising to significantly improve the way brokers communicate with their institutional clients. NatWest Markets already use Veritas to film and distribute their morning briefings and we are in discussions with several other leading brokerage houses," says Mr Ab Banerjee, managing director of the service.

More details on tel: +44 (0)171 873 4074

A HANDY GUIDE TO COMPAQ'S SYSTEM SERVICE PROVIDERS.

Business Systems Group London, 0171 880 8888	**Info' Products (UK) Plc** Chelmsford, 01245 450045
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Computacenter London, 01923 256040	**P&P Corporate Systems** Rossendale, 01706 217744
Computeraid Services Ltd Farnborough, 01252 548888	**SHL Systemhouse** West Drayton, 0181 759 6633
Elcom Technical Services Langley, 01753 777855	**Specialist Computer Centre** Birmingham, 0121 766 7000

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PIONEERS IN HOME BANKING: • By Tom Foremski

Online answers in seconds on new mortgage inquiries

The Bank of Montreal handles thousands of applications via its web site

The Bank of Montreal has been a pioneer in home banking services and it was one of the first North American banks to establish a site on the world wide web in 1995.

The web site quickly evolved from just providing information about its services to allowing customers to check account balances and perform other banking activities.

Earlier this year, it extend its internet banking services to allow customers, and anybody else, to apply for a home mortgage. It is reporting a lot of success with its latest application that allows people to apply for home mortgages online and receive approval within seconds of completing the application.

Although other banks also offer online mortgage applications, Bank of Montreal says it is the first to offer approval within seconds of receiving the mortgage application, thanks to automatic links with its back office decision support system.

The service was developed by the bank's virtual banking division and American Management Systems (AMS). The mortgage application process uses specially-designed electronic forms that lead an applicant through what can sometimes be a daunting process. The system automatically flags errors such as strange birth dates, allowing the applicant to make corrections without having to have the forms returned thereby delaying the application process.

"We are very pleased with the online mortgage application system," says Ms Jane Weatherbie, vice president of personal lending services at Bank of Montreal.

"We realised that people looking for a mortgage have good demographics. They are often young, have good incomes and tend to be Internet users. And what we found, was that once people start to fill out the online mortgage application, they tend to finish it."

Ms Weatherbie reports

> To ensure privacy, the bank uses security systems and firewalls

that the bank is handling thousands of applications through its web site and that it also helps to bring in people who are not its customers.

The bank's web site began offering information about home mortgages and offering a simple calculator, allowing people to check what kinds of mortgages they could afford. The natural next step was to offer users the ability to apply online and, very importantly, receive approval within seconds.

This is achieved by connecting its web site to its Strata decision-support engine which is tied into credit bureaux enabling it to automatically check people's credit histories.

The information from the credit bureau and the mortgage application is compared with the bank's pre-defined risk levels, a process that takes just seconds.

To ensure the applicant's privacy over the internet, the bank is using several security systems and firewalls, plus the encryption capabilities of mainstream web browsers such as Netscape Navigator and Microsoft Internet Explorer.

"We have found that there is a bit of confusion over security among applicants. For example, some people print out the online forms and then fax it to us, not realising that a fax is much less secure than the Internet," says Ms Weatherbie.

Although applicants receive approval within seconds, to obtain a mortgage, they still have to come into the bank and show proof of employment and income. This is something which as yet cannot be easily automated, although Ms Weatherbie says that the bank is working on ways to automate the entire process.

"Having online mortgage applications has enabled us to reach potential customers that might have been reluctant to step through our doors and make inquiries, but they don't mind checking us out on the Internet," says Ms Weatherbie.

The bank has also been advertising on other web sites that deal with real estate listings, allowing users to look at pictures of homes and apply for a mortgage at the same time.

INTERNET BANKING IN EUROPE • By Geoffrey Nairn

Sweden, an ideal market

The internet service of one of Sweden's largest banks has attracted 60,000 customers since its launch last December

Analysts predict internet banking will take a heavy toll on traditional branch-based banks but for S-E Banken, one of Sweden's largest banks, the internet is more an opportunity than threat. It believes branch, phone and internet banking can co-exist under the same banner.

Sweden is an ideal market for internet banking: it has the highest PC penetration in Europe and its sparse population means bank branches are often few and far between. Nevertheless, the success of S-E Banken's internet service in attracting 60,000 customers since its launch last December has taken even the bank by surprise.

"There has been a lot of interest and a lot of transactions are being done," says Mr Anders Lindqvist, internet service director at the bank. Its web site has handled over 42,000 transactions a day, surpassing forecasts.

Along with most banks, S-E Banken is keen to shift low-value – services such as bill-paying and statements from its branches – to cheaper direct methods, such as internet and phone banking. It launched a phone banking service two years ago. S-E Banken has been surprised by the age profile of its internet users.

"It's quite striking as we thought that we would just get students [using it] but more than 40 per cent are older than 40 and 17 per cent are over 50 years of age," he says. Customers under 25 account for just 17 per cent. According to Mr Lindqvist, older customers have more trouble getting to one of S-E Banken's 270 branches and they find the internet service easier to use than the bank's phone banking service.

S-E Banken's internet users have an average income 40 percent higher than its traditional customers. The bank has expanded its site to offer services for these wealthier customers, such as share-trading, personal pensions and mutual funds, alongside more mundane services such as bill payments and money transfers.

Big interest

S-E Banken has offered electronic banking to corporate customers for several years using proprietary software and dial-up links. It had planned to extend this service to its personal customers but the explosion of interest in the internet caused it to change direction in early 1996 and to develop a home banking service based instead on the internet.

Security is one of the biggest concerns in internet banking. With a dial-up PC system, the number of entry points to the system is limited and distribution of the proprietary software can be controlled.

On the internet, the bank is accessible by any web browser. "It's not at issue whether the internet is secure or not – because clearly it is not," says Mr Lindqvist.

S-E Banken will not describe its security measures in detail, but the system is based on the Virtual-Vault technology, developed by Hewlett-Packard and first used at the Security First National Bank – claimed to be the world's first internet-only bank.

S-E Banken issues each internet customer with a credit card-sized password calculator from Belgian firm DigiPass. When the customer enters his or her Pin, the DigiPass generates a one-time password that is then used to gain access to the account. The password changes each time the device is used.

"One of the reasons we felt we could offer a secure internet service was because of this asymmetric encryption technology," says Mr Lindqvist. The technology was originally developed for S-E Banken's corporate electronic banking service.

Despite the success of its internet service, S-E Banken has no plans to abandon its branches though certain services cost more in the branches. For example, shares bought over the internet carry 0.3 per cent commission; by phone, the rate is 0.4 per cent: brought in a branch, the commission jumps to 0.5 per cent.

Mr Lindqvist believes most customers still want branches if only to discuss a loan with the branch manager. "You cannot take away the branches – and my guess is that we will shift to a situation where customers have a choice between internet banking and normal branches with a price structure that reflects how much help they need."

Pilot project

First Direct, the UK's first phone-only bank, is also exploring using the internet.

The bank has 700,000 personal accounts and this summer will start a pilot PC banking service involving 2,500 customers. For the pilot, First Direct will not use the public internet but rather a private network based on internet protocols that customers can access from anywhere in the UK for the cost of a local call.

The bank chose this approach to better control the project and allay security fears. "Using the internet, the quality of service you get from your internet provider is something that we cannot manage," says Mr Ewan Hutton, PC banking manager at First Direct.

Also, the bank believes customers will be more willing to perform transactions on the private network than using the public internet. "The poor security of the internet is more a perception than a real issue – and I do not think it is fully merited," he says.

ICL helped develop the Java-based software for the bank's web site which will initially offer limited services such as balance enquiries and statements. Customers will also be able to download data to home banking programs. In the autumn, the project may be expanded to offer bill payments, account transfers and personal loan applications.

The bank sees PC banking complementing rather than substituting its main phone banking service. For example, someone who pays a bill via their PC could phone up later to check that the bill has indeed been paid. "We do not expect people to use PC banking on its own," says Mr Hutton.

INSURANCE ON THE NET • By Nicholas Denton

Ripe for transformation

Analysts forecast that electronic insurance purchases, which stood at zero in 1996, will reach $18bn-$19bn by the year 2000

Purchasing life insurance, according to several studies, ranks alongside buying a car as one of the least pleasant consumer experiences. It typically involves phoning around several insurance companies, asking for forms, intrusive questions about the applicant's health and a paperchase that takes days if not weeks.

InsureMarket, an on-line insurance site established by Intuit, the computer software company, offers relief. Consumers will still have to give personal details, if only once, but Mr Scott Cook, chief executive of Intuit, says buying insurance over the Internet is compellingly attractive. "You have the ability to make a sound decision, with confidence, in 15 minutes, from the comfort of your own home, on a Sunday afternoon, for free."

As with many financial services, insurance is ripe for transformation by the revolution in communications. However, while the growth of the Internet promises mainly to reduce costs for incumbents in sectors such as banking, it may promote the growth of a new breed of intermediary in the insurance market.

In insurance, as in banking, the Internet makes for efficiency. Booz-Allen & Hamilton, the management consultants, predict "radical" savings through online insurance sales and servicing which could reduce costs by 60-70 per cent over the lifetime of a customer. Some web-aware insurance executives believe insurance policies, which normally require several years of premium payments to cover the underwriter's initial costs, could in an online environment move into profit in their first year.

No surprise then that IDC, the market research company, is forecasting that electronic insurance purchases, zero in 1996, will reach $18bn-$19bn by the year 2000.

This does not in itself make for upheaval in the insurance industry. In banking, for instance, institutions such as Wells Fargo have taken the lead in giving customers the ability to access their account details and make payments online.

But insurance is different for several reasons.

First, insurance companies, fearful of alienating their traditional agents, have been slow in exploiting the Internet. Most insurance sites are the home pages of local agents, giving a consumer access to little more than the office's telephone numbers. Those insurers that do take applications online, typically pass the information as a sales lead to a traditional agent or salesperson for completion of the transaction.

Booz-Allen found that, while 80 per cent of the top 20 commercial banks will enable online retail transactions by the end of this year, only 15 per cent of the top insurers will be that advanced. Only 7 per cent of insurers surveyed offered

> US banks are preparing for a relaxation in restrictions on selling insurance

online quotes and only 1 per cent enabled online sales.

Second, consumers, while loyal to their banks, typically shop around for prices for insurance. Online insurance sites allow them to make comparisons more easily. Intuit's InsureMarket, for instance, allows applicants for life insurance to compare live quotes from Hancock, Zurich Kemper and Lincoln Benefit Life.

Third, traditional agents, which now compare quotes on behalf of customers, lack experience at designing the interfaces for online sales of financial services. "There are 100,000 insurance agents, but count the number of successful consumer software companies," says Mr Cook. "It is vastly easier to get the subject matter expertise than the software engineering expertise. You can buy a book and you can walk through a model; what is hard is transforming that expertise into something that consumers can understand."

These factors, taken together, may give rise to a new breed of insurance intermediary. "The industry's diffidence creates a potential competitive advantage for a new group of technically sophisticated marketers, including, perhaps, the commercial banks, computer software companies, and the large online networks," says Mr James English, an insurance analyst at JP Morgan, the investment bank.

InsureMarket is just one of at least eight significant online insurance intermediaries. Auto-by-tel markets automobile insurance in US from AIG, one of the largest insurers. Another start-up called InsWeb provides online insurance quotes from several providers in California and Utah, and online responses on a variety of insurance products such as life, health and disability from about 30 participating insurers.

Banks, although legally forbidden to offer insurance products in the US, are preparing for a relaxation in the restrictions. Wells Fargo is already experimenting with some cross-selling of financial products to its online banking customers. Once it is permitted to sell insurance, it will have a ready-made customer base.

Insurers, which have underwriting skills not easily replicable by these new intermediaries, will still have a function as suppliers to the electronic marketplace for insurance. But, because consumers will be more able to compare quotes, the insurers would lose some of their power over pricing. One answer could be not to participate.

Intuit needed three insurers to provide live quotes before it began to increase the rate at which visitors to its site closed transactions. Concerted resistance by insurers could stifle the market before it is viable, just as music retailers have smothered efforts by one online service to compare their CD prices.

Mr Cook, who is expanding Intuit from computer software into online financial services, believes insurers have no choice. "The Internet is going to make it easier to compare prices," he says. "The only way a financial institution can stop that is to withdraw from the Internet and go into a hole. If they are not selling to customers, some other insurance company will be."

Radical changes ahead for the insurance sector

Nearly 72 per cent of insurance companies expect the internet to have "an important impact" on their businesses within the next five years – although less than three per cent of insurers now use the internet to allow policy-holders to view, query or even update policy information, according to a recent global survey of the insurance market.

However, this user figure could rise dramatically from three to 49 per cent within five years, adds the report by IBM and the Economist Intelligence Unit.

"More than 40 per cent of insurers maintain that customers will favour electronic to human channels to make less complex purchases, for example, motor insurance," adds the report.

Other key findings suggest that insurers recognise that they must:

☐ Provide secure, easy-to-use electronic information.

☐ Rely less on agents.

☐ Capitalise on their brand names.

☐ Give customers access anytime, anywhere.

☐ Improve knowledge about their customers.

Although many insurers already have web sites, very few, if any, have an internet strategy in place, says IBM. But new network-based insurance products and services will eventually enable customers to benefit from higher levels of service with increased access to agents, intermediaries and policy information, says the company.

In the next five years, the insurance sector will face:

☐ Increasing competition from banks and other financial service companies.

☐ Competition from new sources, such as retailers and computer service companies.

☐ An increase in electronic commerce, plus deregulation and shifting consumer preferences.

IBM's global insurance industry's home page can be found at: http://www.insuranc.ibm.com/insur

– Michael Wiltshire

Electronic financial services

From page 3:

be able to roam through an electronic marketplace, seeking out the best services and prices, and managing his own financial affairs – even to the point of being able to run his own personal bank account.

"From the service supplier's point-of-view, the internet could also open up new marketing possibilities, particularly for non-traditional suppliers who are un-encumbered by earlier structures and attitudes. On the other hand, the internet would undermine the ties of loyalty (or inertia) that have bound customers to financial institutions in the past. It could also cut out the middleman and force down prices."

Separate studies suggest that in retail banking, 20 per cent of the customers generate as much as 200 per cent of the bottom line profits – in other words, 80 per cent of retail banking is a loss-making or break-even business.

If traditional banks fail to hold on to their profitable customers, they could eventually be left providing a loss-making service to the rump.

Another study conducted by Booz, Allen & Hamilton shows that the cost of a typical bank transaction in a full service branch was $1.07 compared with 54 cents for telephone banking, 27 cents for an ATM and perhaps as low as one cent for a transaction conducted over the Internet.

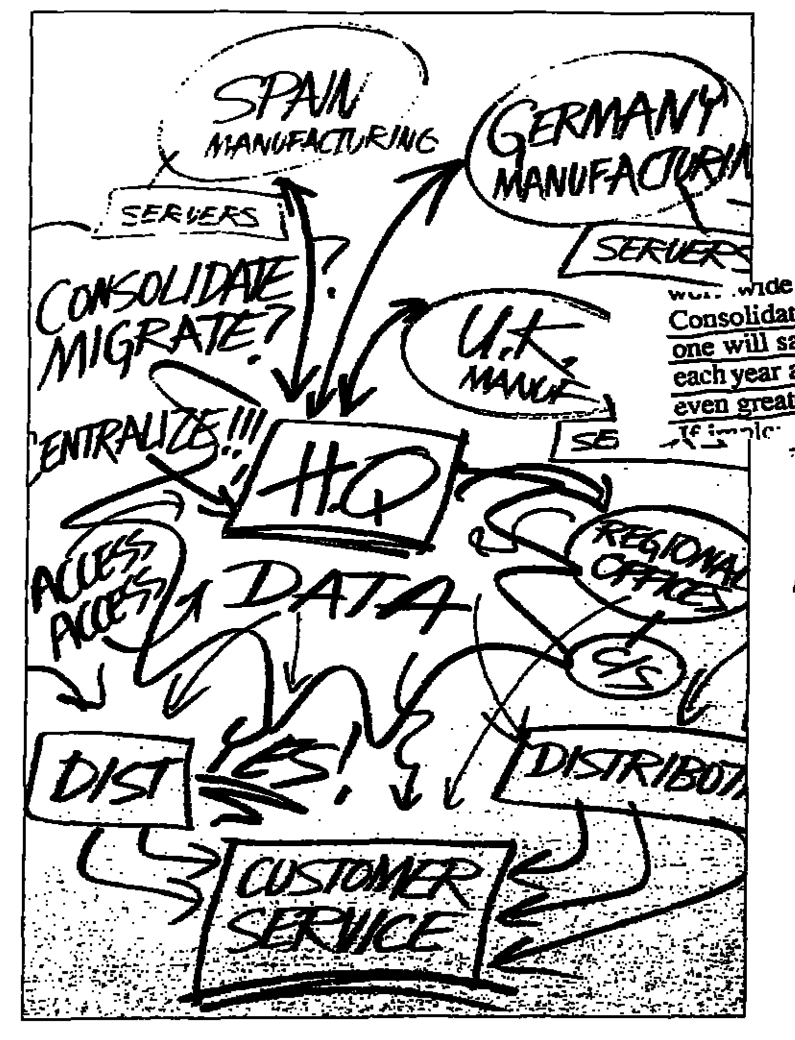
It is hardly surprising therefore that financial institutions everywhere are racing to offer their customers electronic access to their products and services.

In the US alone, more than 300 banks now have a presence on the World Wide Web. And in the UK the last few months has seen a flurry of announcements from the main high street banks of PC banking and Internet banking services.

Neil Melville of Nissan Motors knew the obvious benefits of consolidating all the company's European data centres into one. Not so obvious were the enormous difficulties of getting it done within six months and without massive business interruptions. Melville had heard that EMC's Enterprise Storage offered more than just a shared repository, but he was amazed at how fast and trouble-free the system's platform independence made the migration of more than 500 gigabytes of data. The combination of speed, mirroring

Neil Melville, European Data Centre Manager.

and platform independence eliminated downtime completely and tripled potential productivity. To find out how EMC Enterprise Storage



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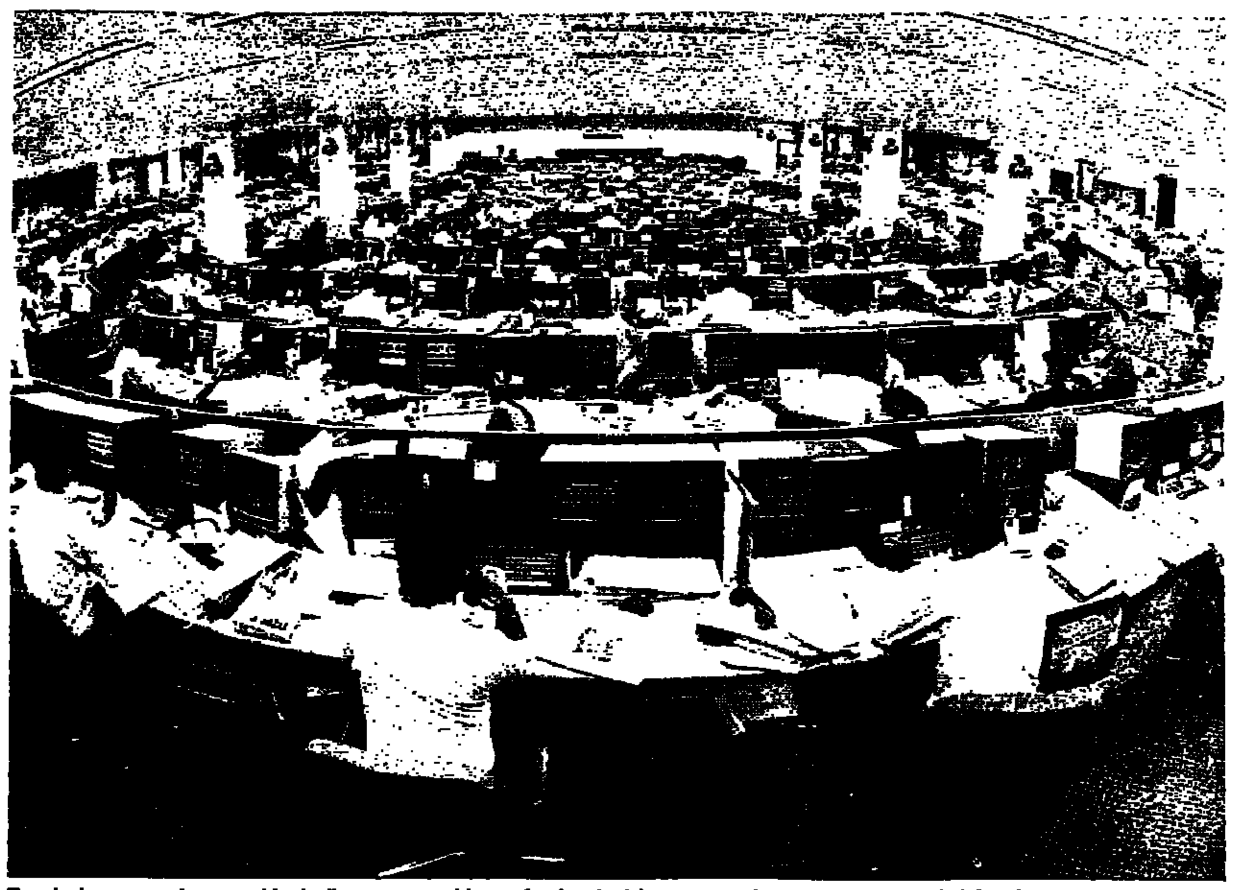
ONLINE NEWS AND DATA SERVICES • By Joia Shillingford

Expansion of financial services on the internet



Terminal progress: long used in dealing rooms and by professional advisers, computers are increasingly helping the general public to make investment decisions. Web sites run by Bloombergs, Reuters and Dow Jones now bring data into the private investor's home

Electronic information providers are gearing up for battle

While Reuters, Bloomberg and Dow Jones battle it out in the dealing room, new entrants are emerging including those offering filtered news services and personalised 'web casts'.

Some information available on the Reuters or Bloomberg financial newswires is available free on the internet; some of it is available more cheaply; some information is not available at all. The market is lucrative. Revenues from the provision of market data should rise from \$6.5bn in 1996 to \$8.5bn in 2000, according to Dow Jones Markets.

There is a growing number of financial services on the net, plus news services, which include financial information. Among them is Pointcast, which delivers personalised news from the internet to the user's screen-saver at agreed intervals. This can be used to provide prices of selected shares.

As a delivery mechanism, Pointcast is like a Reuters or Bloomberg terminal in that, once set up, information is 'pushed' at the user, rather than the user having to seek it ('pull' technologies).

Share prices, an important feature of Bloomberg or Reuters, can also be gathered from the internet using software costing £79.95 (excluding VAT) from Display IT, a fast-growing UK company. This gives prices delayed by 15 minutes to an hour. For real-time data, subscribers must register with Standard & Poor's Comstock service, which they can do direct or through Display IT.

Alternatively, real-time UK equity prices can be downloaded from Electronic Share Information's site for £20 a month (delayed prices are £5 a month). A number of sites give prices updated at intervals, say six times a day, or just closing prices.

Soon-to-be launched product, FT Discovery for the Web, enables a user to set up a personalised news service based on the Regulatory News Service and AFX (UK) and AFX (Europe) news feeds. FT Discovery will have stories on company performance and on factors that could affect stocks and shares. It will cost £99 a month. Features include a news alerting service, and the ability to get a graphical snapshot of a company's performance using a mouse (via a bit of Java software).

A number of news filtering services are also available online. These select news stories, based on the user's stated preferences. Among them are US-based Individual's news filtering service and the Broadcast Monitoring Company's daily news alert and briefing service, available on Netscape's web site as part of the In-Box Direct service. This monitors 2,000 press and broadcast sources worldwide.

While competing against Bloomberg and Dow Jones in the dealing room, Reuters also offers a personalised filtered news service, News Explorer. This draws from over 2,500 sources in the Reuters Business Briefing database and Reuters' network of over 1,900 journalists.

Using probability analysis techniques to match news to a personal profile, the software alerts the user, via electronic mail if required, to the arrival of the news items. News Explorer uses UK-based Muscat's Muscat FX search engine.

Reuters Business Briefing is available as an HTML application, which can be used on corporate intranets (private internets). From early July, it is on the Internet, costing £500 a month for up to 20 hours' use.

Alternatively, users can just surf the net for the news or financial data they want. Share prices for the US-based Nasdaq exchange are free on the Nasdaq site, a selection of Reuters stories are available on a number of web sites (delayed by 15 minutes or more) and Bloomberg headlines are updated on its Bloomberg web site and on a number of other sites.

There is also plenty of information free on companies' own web sites, often including their company report or recent financial results. For a typical fee of around a £1 a minute or £1 a story, a number of news archive databases such as MAID and FT Profile are available online. These enable users to search back copies of newspapers, magazines and market research.

However, not all good news/financial services that are available online, are on the net – Maid is, FT Profile will not be till early next year. Most of those not already on the net are moving to it.

Online newspaper sites are another good source of information, such as the Financial Times web site, FT.com, which provides not only the text of newspaper articles, comment and analysis, but also a broad range of financial background information, *(see also listings, below)*.

With so much information available free, should the giants of the financial information services business be worried? Not yet, according to Mr Mike Bloomberg, founder and chief executive officer of Bloomberg.

He says that what is important about Bloomberg is the content – how information in the public domain is sifted, cleaned and packaged. If someone else offered the same content it would be a threat, but the mere presence of financial information on the net is not a problem.

Mr Bloomberg says: "If you need lots of data from the same place, you'd never choose the internet. The professional market needs a degree of reliability and consistency of speed. But what the net doesn't quite deliver today, it could in a year.

"The internet is ideal for getting information from lots of different sources and for the consumer and the mobile user," he says.

"Our subscribers can obtain the full Bloomberg service by going to our web site, clicking on the Bloomberg Professional icon and entering the relevant passwords. And, since June 30, the only US dial-up (as opposed to dedicated line) service we offer has been via the net."

Yet once customers of Reuters, Bloomberg and Dow Jones start to use their full services over the net, it will be easier for customers to switch services than it is today when some users still have dedicated terminals and others have dedicated high-speed lines.

The information giants are not in imminent danger. At present, there is no single service on the internet offering the breadth of news, data and charting facilities they provide to office-based workers. If there was, it would certainly not be free because of the amount of work needed to produce it.

Software-based "intelligent agents" could pull together large amounts of relevant free information for investors from different sites. This could pose a challenge at the lower end of the market. But where high-value deals are going to be carried out on the basis of financial data, brokers will want to know the data comes from an authoritative source.

Mr Paul Waddington, international marketing communications manager for business information, at Reuters says: "What matters is the core skill of gathering the best information." However, Reuters ensures its internet services do not compete with the dealing room.

The internet presents new opportunities for the information giants. They are used to adapting their services to cope with changes in a fast-moving financial market, and should be able to adapt to changes in technology.

The internet gives them a chance to resell parts of their service more cheaply to a different audience: private investors and the general public. Electronic financial services are gearing up for a battle on the net, as well as in the dealing room.

ONLINE FINANCIAL INFORMATION • From among the ever-increasing range of financial data services, here is a selection of 32 key web sites

How to stay informed via the World Wide Web

Online media sites include:

FINANCIAL TIMES

The FT web site contains online news with comment and analysis, plus vast amounts of business and financial background information for investors and financial professionals. See web site: Http://www.FT.com

FTI

Financial Times Information: a leading provider of business and specialist financial information: See: www.info.FT.com

FTSE INTERNATIONAL

The source of all FTSE indices; it also has a subscription service for financial professionals. See: www.ftse.com

MAID

A large archival database containing many publications and market research sources. This is a subscription-based service. See: www.maid-plc.com

CNNfn

The financial network site of the CNN cable TV network, a good source of breaking financial stories. See: www.cnnfn.com

WALL STREET JOURNAL

The online home of the Wall Street Journal and a gateway to Dow Jones financial information services is available on subscription at: www.wsj.com

NEWSPAGE

Provides current filtered news from more than 600 sources, sorted into 2,500 news topics, largely related to industry and commerce. See: www.newspage.com

THE ECONOMIST

Editorial and links to the research arm of the Economist Intelligence Unit, the Economist's research arm. Web site: www.economist.com

REUTERS

Reuters Business Briefing, a database of more than 2,500 sources, is launched in early July. A variety of other financial information is on the Reuters site: www.reuters.com

STOCK EXCHANGE SITES

The FT's web site, FT.com, provides a link to every official stock exchange. The directory of official stock exchange sites can be found at: www.FT.com/hippocampus/c18e.htm

EVENING STANDARD CITY PAGES

Well-presented City information including stock market prices updated for each of the four editions of the Evening Standard. Web site: www.standard.co.uk

Other key sites include:

BLOOMBERG

This site is useful for financial information on any stock, up-to-date index quotes, market summaries, cross currency rates, and headline news updated throughout the day. See: www.bloomberg.com

FEDERAL RESERVE BOARD

The home page of the entire US Federal Reserve system with many economic indicators and comprehensive information on US banks. See: www.bog.frb.fed.us

WORLD TRADE ORGANISATION

The WTO site has good links to world trade information sources. Web site: www.wto.org

ELECTRONIC SHARE INFORMATION

From July, Electronic Share Information will provide real-time option prices from the London International Financial Futures and Options Exchange (LIFFE), on the Internet. At present, delayed updates are offered on the ESI personal finance web site. It lists periodic prices for all LIFFE equity options and for the FTSE 100 index option as a free service.

The prices are offered as snapshots of the market, updated every 15 minutes. Web site: www.esi.co.uk

DISPLAY IT

Display IT's software product gives brokers and private investors low-cost access to stock market information on the Net, including real-time equity prices. Many investors find it an adequate alternative to higher priced services from the likes of Reuters and Bloomberg. The Ofex-quoted company has sold a million licences and plans a Nasdaq listing before the year-end. For more information, see: www.displayIT.net

E*TRADE

E*Trade Group, a US electronic brokerage company, offers securities trading online. It will buy and sell securities online for the following exchanges: NYSE, AMEX and NASDAQ. Web site: www.etrade.com

EUROPAGES

Details on doing business in Europe, useful contacts and economic research. Web site: www.europages.com/

INSUREMARKET

A supermarket for life insurance set up by US personal-finance software company Intuit. See: www.insuremarket.com

LIFFE

News, statistics, publications and general information relating to the London International Financial Futures Exchange, or specific product areas within it. See: www.liffe.com

MONEYLINE

This site includes US government bond prices. See www.moneyline.com

MORGAN STANLEY

Daily news on financial events around the world; daily performance reporting on over 3,000 indices in 45 countries. See: www.ms.com

NYQUOTES

Live foreign exchange rates from as little as \$35 a user. US company NYQuotes describes its site as: "The place for cash market quotes". See: www.nyquotes.com/

INDIVIDUAL

Personalised news alerting service with a particular strength in monitoring news on technology companies. See: www.individual.com

INFORMATION INTERNET

Real time quotes from the London stock market. Software must be downloaded from the site in order to use the service. See: www.info-int.com

MARKET RESEARCH ON COMPANIES

Many companies, especially in the US, have lots of useful information on their sites including details of top staff, offices, press releases, products, company history, financial results, and sometimes even photographs of management. So the net is a good place to start if researching a company from scratch.

BANK JULIUS BAER

This site has a quick currency converter, which enables you to convert sterling into virtually any other currency. It also maintains charts on the latest foreign exchange trading, and gives advice on what positions to take. Web site: www.juliusbaer.com

QUOTE.COM

This US-oriented site provides some real-time information with feeds from Reuters, PR Newswire, Zacks investment research, NYSE, S&P stock guide, Nasdaq, Edgar on-line and a variety of other data. See: www.quote.com

SHARE TRADING

You can invest in mutual funds at low-cost US stockbroker Charles Schwab's site. See: www.schwab.com

TRADEUK

TradeUK, is a British Business Park and trade directory backed by the Department of Trade and Industry. It is designed for business-to-business searches for UK products. www.tradeuk.wits.co.uk

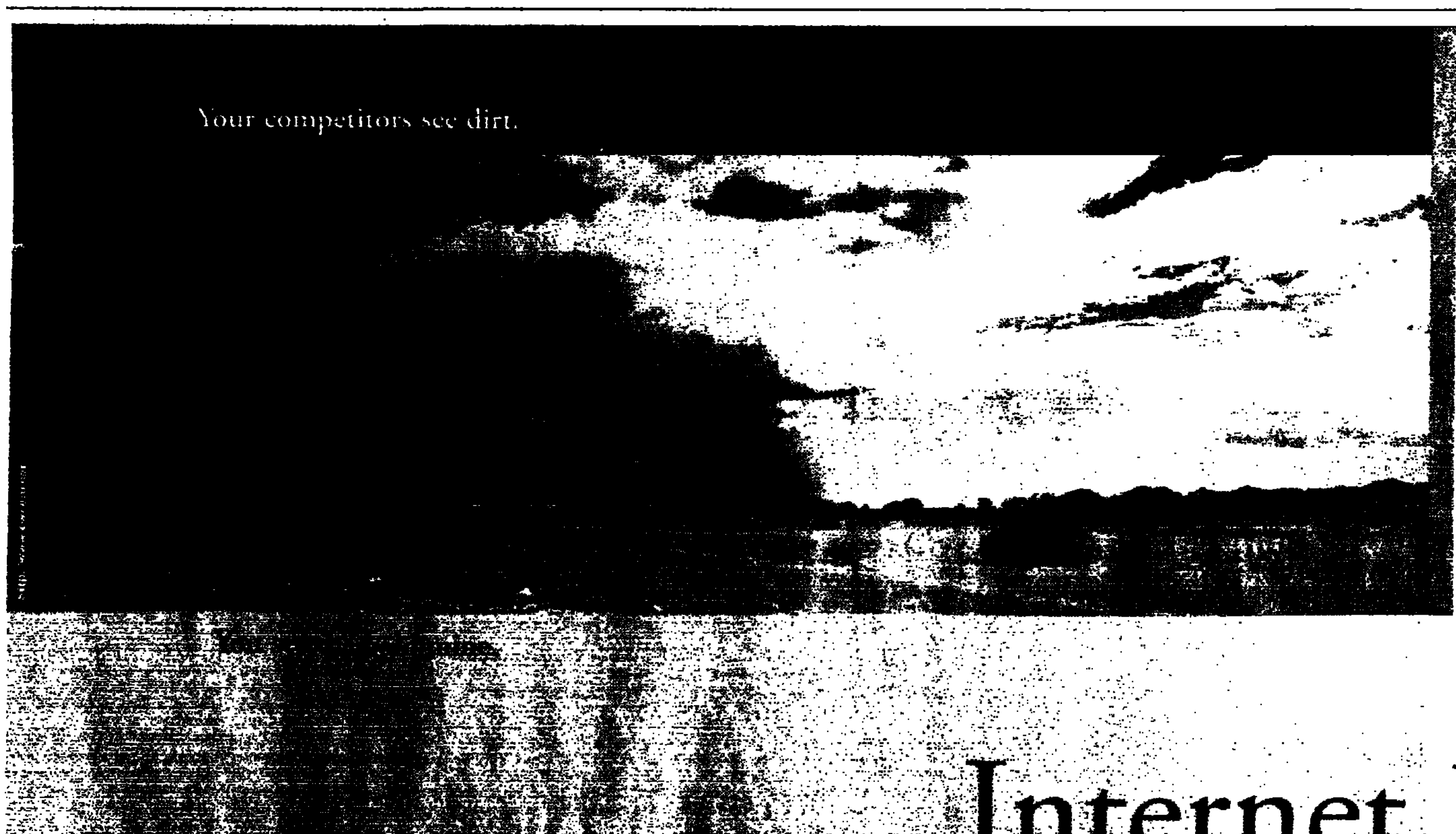
WORLD BANK

The World Bank site contains research on all areas of the world. See: www.worldbank.org/

WORLD CHAMBERS OF COMMERCE

This site provides free listings, enabling businesses to sell their products and services through the International Chambers of Commerce network. See: www.worldchambers.com/gbxhp.html

– Joia Shillingford



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MERCURY

SECURE ELECTRONIC TRANSACTIONS • By George Black

New standard opens the door to electronic commerce

For most of the retail sector, the SET standard represents a significant breakthrough

The recent publication of a definitive version of the SET (Secure Electronic Transactions) standard should open the door at last to full-scale Internet commerce.

Last year, the principal card issuers Visa and Mastercard announced a plan to collaborate on a standard for secure electronic commerce to overcome the doubts of the banks, traders and general public.

They jointly published a draft specification and since then banks across the world have been testing the standard.

SET is designed to keep credit card numbers and transaction details private when sent across a network, to prevent payments being altered and to confirm the identity of the seller and the validity of the buyer's card.

It uses message encryption, digital signatures and cryptographic certificates to achieve these objectives.

Now, with the arrival of SET version 1.0, the standard is here.

"This is the starting pistol," says Ms Carol Coye Benson, a senior vice-president of Visa.

Systems developers are eager to implement it. Most have preliminary versions of products to be based on it and it should take them only a few months at most to make the changes to deliver final versions.

- Internet browser vendors such as Microsoft and Netscape have to develop electronic wallets based on SET to hold electronic credit cards.
- Merchants need to incorporate SET into their Internet servers so they can accept transactions from electronic wallets.
- Banks have to build SET into their servers to be able to receive information from both buyers and sellers with confidence.

The computer industry is well-prepared to make these things happen quickly and smoothly. IBM's European manager for electronic commerce, Mr Sean Haffey, says his company will have products in all three categories out by the third quarter of this year.

It may take a while longer for the whole infrastructure for secure Internet trading to be put in place, but it looks likely that electronic commerce will start to grow significantly within a year.

"For the great majority of the retail trade, SET will represent a major breakthrough," says Mr Sam Sethi, UK marketing manager for Netscape, which intends to support the standard.

SET looks likely to be become the basis for most high-volume and high-value electronic commerce, though there will probably be some types of transactions for which it is inappropriate.

For users who want an exceptionally high level of security, SET may not be enough, as it offers only 56-bit encryption. This could be broken by determined criminals working with powerful computers for several months. It has already been proved that 40-bit encryption is too easily cracked.

The US government now permits the controlled export of 128-bit encryption algorithms, which would be virtually impossible to break.

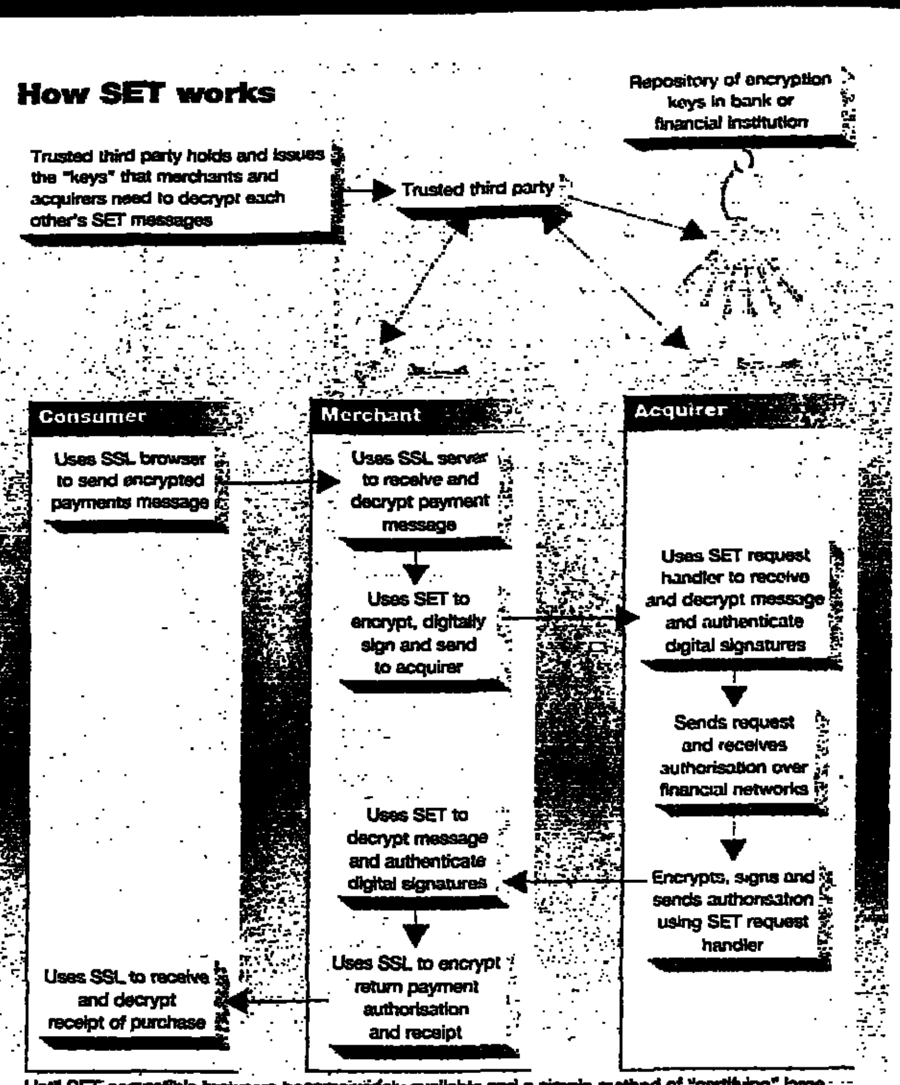
At the other end of the market, some users may not be much concerned about security, particularly for what are becoming known as "micropayments" – these are payments for transactions in very small amounts, for which full electronic transaction charges would be excessive.

These transactions may be made by electronic purses and may not need such complex encryption techniques. Electronic purses may be used for a large proportion of small debit transactions.

Companies such as Digicash and Cybercash have advanced into this sector of the market first by offering virtual or electronic bank accounts. These operations could still find a niche even if SET is a success.

But whether the companies promoting them are large enough to survive in the long term as independent businesses in competition with such powerful organisations as Mastercard and Visa must be doubtful.

How SET works



Until SET-compatible browsers become widely available and a simple method of "certifying" large numbers of consumers is found, SET will most likely be used initially to protect data traffic between Merchant and Acquirer only. Data passed between the Consumer and Merchant is encrypted using SSL technology built into today's commercial browsers. Source: VeriFone

REGULATING CYBER TRADE • By Nuala Moran

Now it's time for action

Electronic commerce raises problems in both direct and indirect taxation, as well as consumer protection

The time for soothsaying is over. The latest surveys show that electronic commerce has arrived, and the problem of how to tax and regulate a market that has no national boundaries is now a matter for action not prediction.

A report published last month by the consultants Ernst and Young forecast that the proportion of financial services companies processing transactions on the internet would rise from 13 per cent in 1997 to 60 per cent in 1999, as concerns about security of the network are taken care by secure electronic transaction technology *(see report, above)*.

The Interactive Media in Retail Group (IMRG), a forum for electronic commerce which represents more than 200 retailers in 20 countries, says that sales through electronic commerce in the first quarter of 1997 were greater than for the whole of 1996.

"In the travel sector, sales reached $10m in the first three months of the year, which gives some indication of what the potential is," says Mr James Roper, director of IMRG.

While the security issues associated with trading electronically may largely have been solved, many other legal issues remain, such as how to tax transactions, setting up a framework of consumer protection measures that can be made to stick, and regulating companies trading on the internet.

Among the bodies looking at these matters is the Electronic Commerce Policy Group of the G7 Group of industrial nations, and the European Commission's internal markets directorate, DG15. There is already evidence that tax revenues, if not being lost, are being redistributed, as goods which would previously have been bought in the high street are purchased from overseas; of invasions of privacy as detailed personal information is gathered from users of web sites; and of frauds perpetrated over the internet. And it seems that even when there *is* international agreement, it is difficult to enforce regulation on the net.

Warning

An example is intellectual property where it has been agreed that existing copyright protection should be extended to works such as music and film, that are distributed electronically.

However, when the rock group Oasis warned unofficial web sites – run by fans of the group – that it would take legal action to stop them making unauthorised use of copyright material, several sites stated publicly that they would ignore the warning. They also criticised the group for attempting to censor the internet.

In this example there is an international consensus about regulation; in other cases, such as tax liability and collection, no similar agreements yet exist.

Last month, the UK's Chartered Institute of Taxation (CIT) warned that Britain could lose billions of pounds worth of tax revenue in trading over the internet. Goods such as software and compact disks are increasingly bought over the internet by overseas companies which do not pay value added tax in the UK.

While this loss is not due to criminal activity, there is no doubt that the lack of a physical audit trail in electronic commerce widens the scope for tax avoidance.

Conversely, companies trading electronically may be held liable for multiple taxation if a taxing authority could show they were trading within its jurisdiction.

Mr John Andrew, president of CIT proposed setting up a working party between CIT and the Inland Revenue to look at how to preserve the tax receipts threatened by the boom in electronic commerce.

Argument

The Inland Revenue acknowledges that cyber trade raises problems in both direct and indirect taxation. It argues that the problem must be dealt with internationally, and it is working with the 29 countries that are members of the Organisation for Economic Co-operation and Development (OECD) to develop a framework.

Rather than attempting to translate the plethora of existing taxes to internet transactions, it has been suggested that there should be a single 'bit' tax, a flat rate levy on data going across the internet.

The question is who could governments finger to levy this tax, or to enforce any regulations on electronic commerce. One candidate would be the service-providers who run the networks.

Mr Chris Holloway, a security consultant with IBM, says that while service providers have every reason to want proper regulation to protect consumers and drive the market, he does not think suppliers can, or should help governments to police electronic commerce. "Within the internet, the concept of a controlled environment does not exist. The whole area of trying to regulate the internet is in its infancy."

Mr Holloway suggests that it should be possible to apply current law to internet trade. "Even if they trade entirely electronically, companies have physical manifestations – offices, employees. Even a virtual corporation has to put its servers somewhere," making it subject to a particular jurisdiction.

It may be that collecting taxes due on internet trading is a case of *plus ça change* – it remains the responsibility of companies and individuals to declare and pay what they owe.

The twist is that businesses can trade from anywhere, and this could lead to competition among countries to establish the most competitive tax regime – in the same way as tax incentives are used to attract inward investment.

Contract law

The problem of regulating business-to-business trade may be over-stated because, in general, companies are transferring existing relationships to electronic media. These agreements fall within existing contract law.

However, consumers are increasingly likely to buy goods and services from companies with which they have no pre-existing relationship, and which maybe are subject to less vigorous regulation than the retailers they are used to dealing with.

On its web site, in which it advises of known fraudsters, the Securities and Investments Board (SIB), the UK's main financial services regulator, compares the internet to a car boot sale: "Anyone from anywhere in the world can offer anything for sale. Inevitably," says the SIB, "there will be false bargains and frauds."

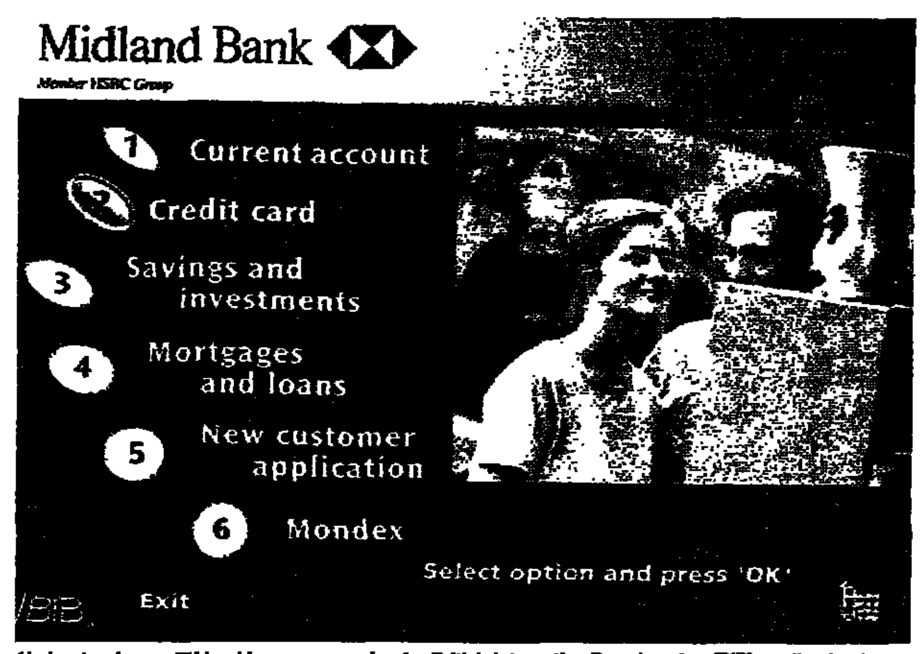
"There must be some mechanism for assuring consumers that their rights are protected," says Mr Roper. He suggests a system similar to that operated by the Association of British Travel Agents, in which agents pay a bonding fee which is used to compensate customers if one of their members go out of business.

"Big business interests understand the market will be slower unless some such mechanism is in place. They will be more than willing to resource the right kind of structure," he says.

INTERACTIVE TV: BUSINESS APPLICATIONS • By Alan Stewart

Retail revolution ahead

Interactive TV could herald 'a whole new world in retailing and banking'



Aiming to pioneer TV banking: an example of a British Interactive Broadcasting (BIB) application in development, featuring Midland Bank services

British Sky Broadcasting (BSkyB), British Telecom (BT), Midland Bank, and Matsushita Electric recently announced the formation of a new company, British Interactive Broadcasting (BIB), which will bring interactive television services to viewers of BSkyB's 200-channel digital satellite television service, planned to launch next spring.

Interactive services planned include shopping, banking, holiday booking, education, computer games, and internet access. Starting in summer 1998, these services will be available on home televisions via the same £200 'set top box' converter required to receive digital television. The concept has been around for more than 20 years, so why should BIB's version of interactive TV fare better than the many trials which preceded it?

"We are leading this entire project from a marketing and customer perspective," responds Mr Chris Townsend, BIB's commercial director. "We know the technology can work. It's there to support the proposition we want to build, not the other way round," he explains.

"We are talking only to brand leaders, and we've conducted an enormous amount of market research to find out what customers are looking for."

Mr Rupert Gavin, BT's director of multimedia services, denies that BIB might be the vehicle for providing internet services to schools and libraries, as allegedly agreed with the Labour Party when it was in opposition.

"BIB will bring expertise from BT's earlier interactive television trials to a mass public," he says. BT is currently banned from broadcasting until 2001, and Mr Gavin refutes any connection between BT's involvement with BSkyB and the possibility that the government might bring the date forward to 1998.

"A decision on the lifting of the ban does not affect our motivation for BIB one way or the other," says Mr. Gavin.

Midland Bank wants to pioneer TV banking in the same way its subsidiary, First Direct did with telephone banking, and also to position itself for developments within the payments market.

"We shall handle all the payments traffic for BIB," says Mr Paul Seward, the bank's head of emerging technology. "We expect to introduce the Mondex card as a personal payment mechanism over the set top box," he adds.

"Money could be downloaded from a bank account on to a card for use in purchasing small-value items across the BIB platform," says Mr Seward, but he emphasises that this "will not happen from day one".

Music retailer HMV is one of the key brands that BIB has been working with: "We know that at some stage our market will start becoming mature," says Mr Stuart Rowe, HMV's business development manager. "Anticipating that, we want to target lapsed buyers and customers who can't get to a specialist music store."

But will the public be interested in interactive television? "It's a huge gamble on BIB's part," says Mr Derek Nicoll, research fellow at Edinburgh University's School of Management, which organised its conference on interactive television last year. "The scale of interactivity is limited with satellite," he warns.

So what about cable? "We could steal a march on digital satellite by launching at the end of this year," says Mr Ian Hood, public relations director at TeleWest, the UK's second largest cable company. "Or we could launch at the same time and all benefit from the digital knowledge that is created."

TeleWest plans to offer a digital service including multi-channel television, a "virtual video store", and interactive services similar to those planned by BIB.

Although Mr Hood is not prepared to give details of possible service providers, he does not rule out the use of interactive services from BIB.

As well as digital satellite and cable services, 1998 will also see the launch of digital terrestrial television (DTT) from the BBC, ITV, and satellite and cable groupings. "BIB would like to be available on all DTT and cable platforms," says Mr Townsend. "Although we have not yet entered into any discussions with the BBC."

Although BIB itself refuses to quote any potential usage figures, forecasting companies believe that in ten years' time digital satellite TV could be in 5m-7m homes, with digital cable and terrestrial services in a further 3m-5m each. If distributed by all digital platforms, BIB could therefore

Continued on facing page

FUTURE OF ELECTRONIC COMMERCE • By Geoffrey Nairn

Business-to-business activities will dominate

Much of the software for e-commerce still focuses on building web sites

Take a peek behind the flashy facade of many of today's internet stores and you will probably find poorly designed software, incompatible databases and primitive payment systems.

Many internet commerce sites are heading for early retirement, says a report from the US research group, Forrester Research.

These sites were assembled in haste using custom software with little thought for future growth or integration with other business systems – stories abound of firms with online stores that must print out orders received over the internet and manually re-key them into their traditional payment systems.

Writing an electronic commerce (or 'e-commerce') program from scratch is a risky business that can cost over $500,000 and easily backfire if orders are not handled properly. But, until recently, retailers had little choice: early merchant server software was rudimentary and lacking in key areas such as security and integration with enterprise applications.

However, the situation is improving and the leading suppliers, such as IBM, Netscape, Oracle and Microsoft, have developed more sophisticated products to attack the fast-growing e-commerce software market, which could be worth $3.2bn in 2000, according to Forrester.

Microsoft, for example, recently announced Commerce Server to replace its earlier Merchant Server product. Unlike the latter, which was sold as a stand-alone product, Commerce Server is bundled with Microsoft's latest server software for large organisations, called Site Server Enterprise Edition.

"We think it's essential to provide commerce functionality to customers as an integral component of a comprehensive web site package for enterprise customers," says Mr Jim Allchin, senior vice president of Microsoft's personal and business systems group. Also unlike Merchant Server, Commerce Server targets business-to-business commerce and future enhancements will make it easier to build business-to-business applications, such as corporate purchasing and supply-chain trading.

Many analysts believe e-commerce will be dominated by business-to-business trading rather than selling to consumers, but analysts believe much e-commerce software still focuses too much on building web store-fronts and processing credit cards.

Business-to-business transactions may not need a fancy web page, but they do need features that consumer-oriented merchant servers often lack, such as various contract terms and payment options, authorisation procedures and integration with electronic data interchange systems.

"Adding these features to systems with basic credit card processing looks like more work than starting from scratch," says Forrester. However, the research firm advises users to go for commercial products, despite their current inadequacies, because the do-it-yourself approach produces 'spaghetti code' systems that will not 'scale' – grow – or integrate with other systems.

"Commerce systems have failed in the past where they have been stand-alone systems," says Ms Jenny Edmondson, e-commerce marketing manager for database vendor Oracle. Some systems may, for example, allow customers to order goods that are not in stock simply because the web-based ordering system has not been integrated with the inventory application.

Oracle's recently announced Java-based Internet Commerce Server claims to provide seamless integration with pre-existing processes such as order entry, inventory, payment, taxation, shipping and handling. An early user is Motorola which plans to use the Oracle product to allow its European dealers and distributors to browse, purchase and pay on-line for Motorola mobile phones and other products. The second phase of the project will also allow consumers to buy Motorola products on-line.

One of the biggest challenges with an e-commerce site is making it future-proof. "With electronic commerce you are heading into uncharted waters and the system needs to be very flexible," says Ms Edmondson. For example, if a growth path is not built into an e-commerce site that becomes popular, it can become a victim of its own success when on-line transaction times slow to a crawl and customer frustration mounts. Tandem believes its NonStop Himalaya fault-tolerant servers are particularly suited to e-commerce applications because of their round-the-clock availability and scaleability.

But not everyone can afford a fault-tolerant system – thus, Tandem also offers e-commerce systems based on Windows NT Server, rapidly becoming a favourite for commercial web sites. For this new market, Tandem offers iTP WebServer and its iTP SET payment software, which is designed to support the Secure Electronic Transactions (SET) protocol. To further bolster its e-commerce business, it has teamed with Mercantec, a specialist in e-commerce software, to use the latter's "virtual shopping trolley" technology, called SoftCart.

The success of an e-commerce site stands or falls on its integration with a company's back-office systems. The US company, CyberSource offers a range of outsourcing services for companies who want to put their businesses online, but do not want the headaches of managing back-office functions, such as real-time credit card processing, fraud screen, export control, secure electronic fulfilment and EDI links to distributors and fulfilment houses.

Another US company, Open Market, offers its Transact product to enable companies to securely and centrally manage business transactions using content located on different web servers. Mr Alan Cornwell, head of international marketing at OpenMarket, says Transact appeals particularly to phone companies, such as BT and Belgacom, and internet service providers (ISPs), such as UUNet.

"They're moving up the value chain from being an ISP to a commerce service provider," he says. The software, which costs more than $300,000, allows a phone company or ISP to handle e-commerce transactions of the merchants whose web sites it hosts in return for a monthly fee of $50 to $200 and a charge for each transaction processed.

"Its a very cost-effective to get a merchant up and running as it would cost them at least $50,000 to build the payment gateway themselves," says Mr Cornwell.

هكذا من الاصل

VIRTUAL FINANCE • By Philip Manchester

The market is wide open

As technology swiftly changes, the new breed of virtual financial institutions is emerging

As Richard Branson's Virgin group sells pensions while Marks and Spencer, the food and clothing retailer, advertise loans on UK television, it all raises interesting questions about what constitutes a 'financial institution' in the 1990s.

A combination of de-regulation, globalisation and advancing technology now means that almost anyone can set themselves up as a 'virtual' bank or insurance company if they have access to capital and know how to manage risk. What was once a nationally-based market, dominated by a small number of well-established institutions, is now wide open. Indeed, traditional financial institutions are at a disadvantage in the new global market.

"We have carried out an exercise for banks around the world to see what impact network technology and the globalisation of the financial services market will have on them. All other things being equal they don't stand a chance," explains Mr Mark Dickens, worldwide head of financial services for PA Consulting.

"If you look at where they stand in the value chain – banks are furthest away from the customer in the new environment. With the advent of on-line PC banking – or set-top TV access to the network, banks are essentially 'content providers'. Service managers and service providers are much closer to the customer. And, compared to organisations such as News Corporation and AT&T, which are investing on a global basis, national banks cannot afford the investment. This is why established banks are looking for ways to move up the value chain to get closer to customers," says Mr Dickens.

Even the bank's brand name – the traditional sign of respectability and credibility – has only a limited life-span, he suggests.

New Virgin territory...Richard Branson's move into personal equity plans and pensions has helped redefine UK financial institutions

"At the moment, they still have a window of opportunity that they can still live on because of their traditional position of authority – but this will close very quickly – perhaps within a couple of years. This means that they will only be able to compete on price and by widening their provision of financial services."

Mr Dickens is aware of a bank which is in the process of setting up a partnership with a consumer-advice organisation to do exactly this. He also points to opportunities for banks to exploit their traditional risk management skills by selling them on to the new breed of virtual financial institutions.

The financial services industry is, of course, 'information-rich' – making it ideally suited to the modern global network environment. Unlike manufacturing where 'real' goods must be assembled and despatched, financial services can operate entirely within the scope of the global electronic network. This will become increasingly evident as customers move to on-line banking via their home PC or a TV set-top box.

The current infrastructure of banks – based on a widely-spread network of expensive High Street locations and a cumbersome, centralised administrative model – is not an ideal starting point to compete in this new global environment.

"The big banks are seeing that their five-year strategies are not holding water because the technology is moving so quickly. The barriers to entry are coming down. As long as you have an identifiable brand name such as Virgin, for example, and good risk management, you can use the technology to put you in any market you want," says Mr John Mattingley, manager of strategic finance accounts at UK software company Logica.

"If you take the example of European Monetary Union (Emu) – which levels the playing field for financial services companies of all kinds – you begin to see the problem. Banks cannot afford to set up marble palace in every market town in Europe so they must use different strategies.

"Nowadays, you can set up your accounting database and your customer call centre wherever you like. It is easy to see new-style virtual finance organisations cherry-picking the profitable services in this market. Traditional banks and insurance companies must, therefore, find partners that will give them the international coverage they need to compete," he adds.

Some banks are, of course, already experimenting with advanced technology. Mr John Pipe, chief technology officer at groupware specialist Staffware, says that "a major UK bank" is using its software to set up corporate PC banking. "They are looking for ways to bring customers and suppliers closer together by offering credit checking services. Our software lets a customer place orders on-line through the bank which then carries out the checks and passes the order on to the supplier."

This provides a useful model for virtual financial organisations. "It gets the suppliers and the customers to work together through processes that you own. You can of course outsource the whole operation including things like claim checking in insurance or credit checking for loans."

Mr Mattingley from Logica suggests that, in as little as five year's time, the whole face of financial services will have changed as a result of advances in technology. "The new 'push' technologies – which enable you to get to your customers through the network – will be less about traditional banking and more about management of information."

INTERACTIVE TV

Big potential audience

From previous page:

be in more than 10m homes. "There really is a whole new world in retailing and banking just round the corner," enthuses Mr Townsend. "Retailers will be able to reach a huge audience for less than the cost of opening a store on the High Street."

Instead of paying high rents and rates, companies could locate their distribution centres at more convenient sites, he says.

BIB's service providers are reticent about this vision, however. "HMV see interactive shopping as incremental business," says Mr Rowe. "It's not a cost-saving initiative. The idea is that people will still go out and shop for music, videos and games in our stores," he adds.

The retailer, J Sainsbury insists that, although around 20 per cent of its customers may be interested in some form of "surrogate shopping", there will still be a need for stores. "Many people regard shopping as a pleasurable leisure activity – they prefer to visit stores in person," says the company.

Midland Bank is equally clear that home banking will neither cause the closure of any of its 1,700 branches nor cuts in its 45,000 staff.

"We do not see this development as a substitution for anything at this stage," says Mr Seward. "Customers are still going to want to talk to staff about personal loans, investment products, and so on."

He insists that if customers want branches, then Midland will be on the High Street. Nevertheless, First Direct will shortly be launching an internet pilot, and Midland itself will launch a PC banking product next year. "We're keeping our options open," says the Midland's Mr Seward.

At BIB, Mr Townsend believes the same number of people will be employed in the future, but performing different tasks, such as answering phone calls, and picking-and-packing in warehouses. "Companies will be able to run their businesses far more efficiently," he says. "Interactive television is genuinely going to revolutionise the way we do business."

LOOKING AHEAD • By Philip Manchester

Software industry pre-occupied with tough challenges

The year 2000 date problem, Emu and prospects of a global electronic currency are key issues

The world computer software industry has been badly caught out by the problem of the transition from 1999 to 2000. Although estimates vary, the cost of putting the world's software right so that it can handle the change is enormous. Mr Robin Guenier, chief executive of Taskforce 2000, says it will cost £31bn just to sort out the problem for the UK. Worldwide, the figure could be as high as $1.5 trillion.

The year 2000 problem can be summed up very simply. Until quite recently, computer software used only two digits to hold the year in data fields. The result is that any date after December 31, 1999, will appear to be chronologically before all existing computer data – which makes a nonsense of any date dependent computer operations.

Software developers lamely argue that much of the software they have created over the past 30 years was not expected to survive as long as it has. It seemed legitimate, therefore, to hold only the last two digits of the year. Now they are feverishly working to put this right so that the world's computer systems do not grind to halt in 2¼ years' time.

This is, of course, is nothing short of scandalous – especially given that not all software suppliers are genuinely solving the problem – merely postponing it.

"I am not enamoured of the software industry at the moment," says Mr Dennis Keeling, a business software analyst and director of the Business and Accounting Software Dealers' Association (Basda). "Although some companies – such as SAP – are taking a very responsible attitude, a survey we made recently shows the majority of software developers are *still* using a two-digit date. They are getting round the processing problems with alterations to programs that fudge the date so it works."

Dennis Keeling: 'I am not enamoured of the software industry at the moment'

The software can cope with dates up to about 2040 – "but really the whole thing is a cheap fix to duck the problem. And many suppliers are charging their customers to put the problem right, which is not at all acceptable," says Mr Keeling.

While the year 2000 problem is obviously the most serious pre-occupation of the software industry, it is, of course, not the only one. The proposed single European currency also presents a significant challenge to software developers – as, indeed, does the prospect of a global electronic currency for trading over the internet. British Telecom predicted recently that global electronic currency could be in common use as early as 2003. This will mean further changes to the basic accounting software that every company uses to run its business.

Unsurprisingly, software companies are quick to defend themselves and many have changed the way they build software so as to be able to cope with future changes of this kind.

"A global electronic currency could be some way off – but we have to consider it. We have been through the exercise with the Euro and our approach has been to move to multiple currency accounting. We have changed our software so a customer can, for example, invoice in French francs to a supplier in Germany and receive payments in Japanese yen," says Mr Richard Anning, UK product marketing manager for accountancy software company, Coda.

The company has adopted object-oriented design techniques which splits software applications into a self-contained modules. "If you break software down in this way it makes it a lot easier to make changes and cope with changes. We are also working with other accountancy software suppliers through the Object Application Group to specify com-

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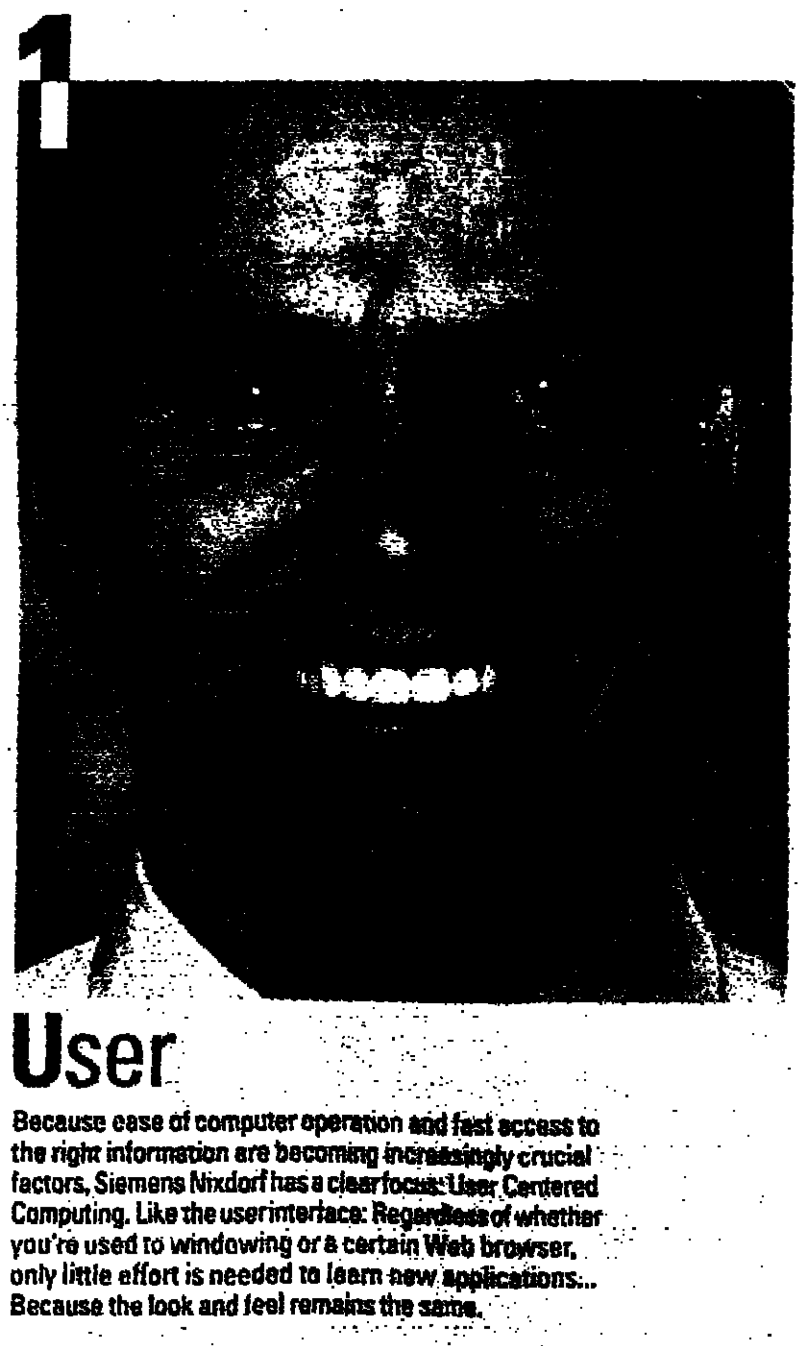
SIEMENS NIXDORF



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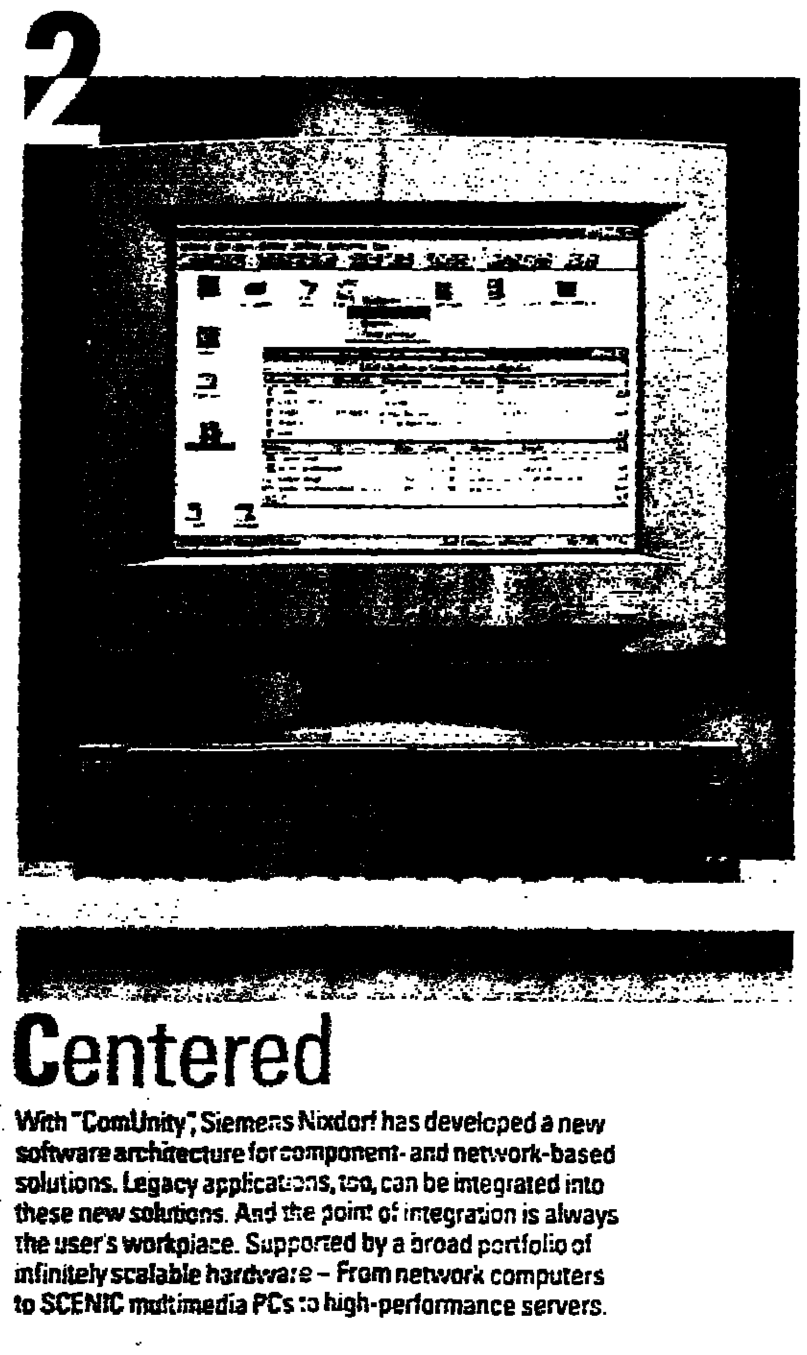

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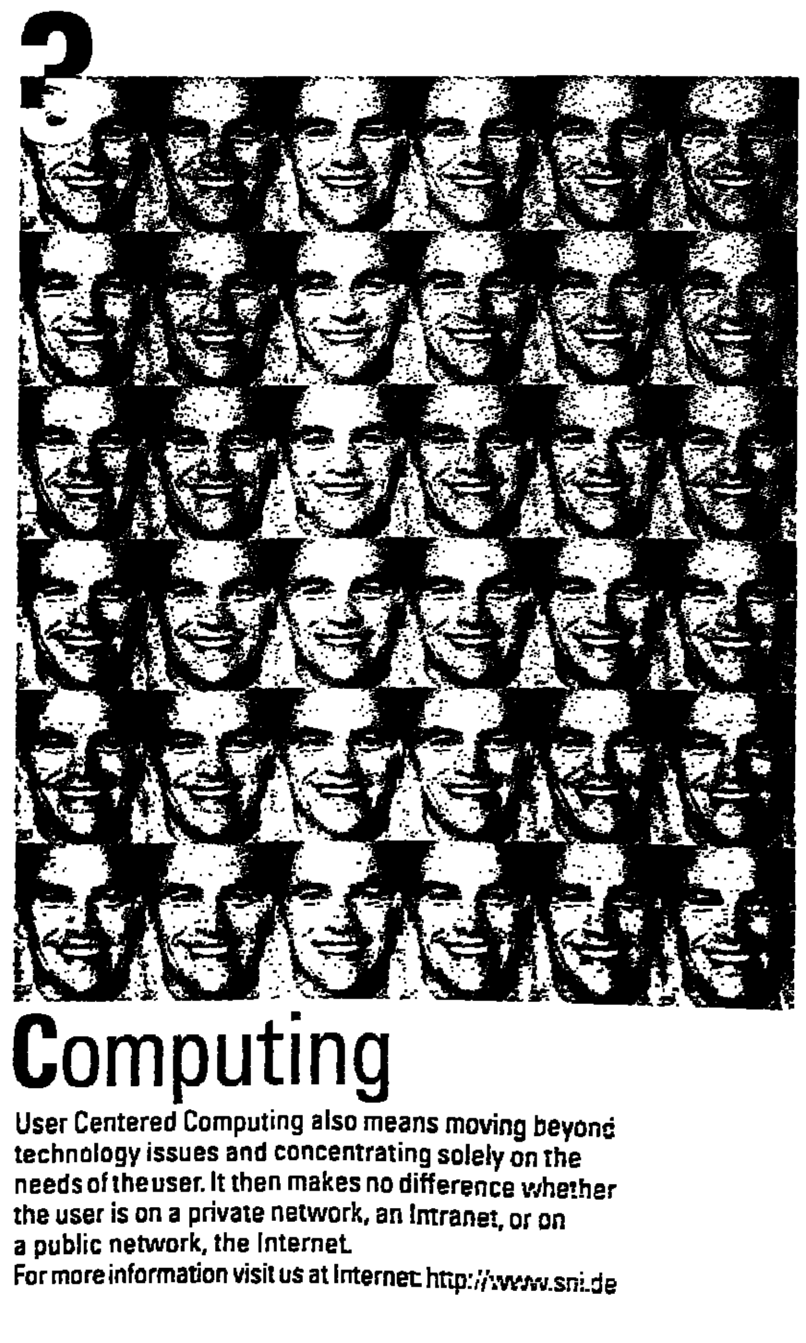

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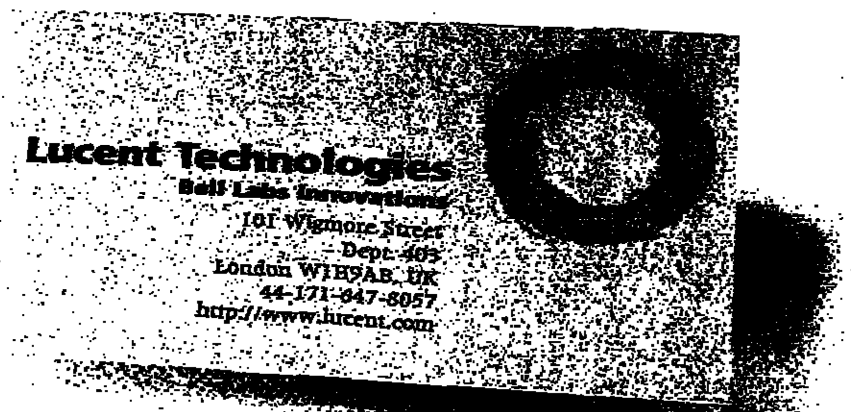

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MERGERS AND ACQUISITIONS • By Nuala Moran

The headaches of integration

Linking information systems between merging companies is a tough problem, but intranets – or private networks, based on internet technology – can help to ease the difficulties

Companies have seized upon intranets as the easy route to link disparate computer systems and unite corporate islands of information. In effect, intranet technology turns out to be a cheap and simple way of delivering the long sought-after objective of integrated information technology systems.

Which begs the question: if intranets can do this internally, could they be used to smooth the costly, and often bloody, process of IT integration following a merger or acquisition?

While the business case for a merger may be based on factors such as complementary products, good geographical or cultural fit, it will only hold if the computer systems of the two companies can be successfully integrated.

Knitting the IT infrastructures together will not only be expensive, until the process is completed it will be impossible to exploit the full potential of the merged operation. And as it becomes evident that information may be one of a company's most valuable assets, the process of IT integration will become more central in delivering the full value of a merger or acquisition.

Mr Dan Collins, director of the network specialist Integralis, says: "Increasingly, systems compatibility and how the hybrid organisation leverages its collective data to give competitive advantage, will matter more than factors such as p/e ratios."

Merger process

Mr Collins believes that one aspect of intranets that has escaped general attention is the impact they could have in helping to integrate the systems of merged or acquired organisations. "It allows you to base everything on a common web browser interface, and connect back to multiple information sources, whatever make of machine they reside on. Just the fact of having a common user interface could be significant in smoothing the merger process."

Mr Matthew Wall, business unit director for internet and new media at EDS, agrees: "Intranet and internet technology in general will make integration of organisations easier to an extent."

One important benefit will come at the beginning of the merger process when the respective intranets of the two companies could act as a single channel of communication to all staff in the merged organisation.

"Lots of companies have difficulties when they merge in communicating with the staff they are taking over – linking intranets will allow instant sharing of information," says Mr Wall. Even a simple aspect such as the ease of publishing a shared telephone directory would oil the merger wheels. Indeed, in deals which take time to ratify, because for example of anti-trust investigations, this method of communication could provide a channel for preparing the ground.

An example is the merger between the telephone companies, BT and MCI, where much of the detailed work on how the merger will proceed, was carried out using teleconferencing and groupware over the internet. "It certainly can help with the courtship process," says Mr Wall.

Using the internet, two merging companies could also instantly share applications via a web server, without having to modify the applications. Internet technology also makes it possible to deliver new applications without having to change the hardware infrastructure of either partner.

Core problems

A company which has a policy of growing through mergers and acquisitions could develop an IT template, based on internet technology, which could be fitted on to the IT infrastructure of any company it acquired.

But whatever intranets may do in terms of improving communications and turning information into a shared resource, they will not get rid of the headache of integrating the main back-end processing systems. "Intranets will make IT integration easier, but they won't solve the core problem," says Mr Wall.

Mr Kevin Green, a director of Olsy Systems and Services – who has worked on such heavy-duty IT integration projects as the Abbey National and National Provincial building societies, and the Halifax and the Leeds building societies – agrees.

"Two banks that did nothing but PC banking on the Internet would still have the problem of integration of different host systems. So, while intranets may help with some of the cultural issues, I don't think they would be a major boon to easing the paths of mergers and acquisitions."

Mr Collins says: "I'm not suggesting that if you use intranets, everything is easy and simple. You still need sophisticated skills and tool-sets to make it work. While it is still complicated to integrate the back-end, it is easier for the users because the user-interface is consistent."

CASE STUDY • The Alliance & Leicester

UK pioneers in home banking

Thousands of customers will help test a new PC-based service, writes Michael Dempsey

The Alliance & Leicester, the £2.8bn UK financial institution that changed its status as a building society and converted to a bank in April this year, is now pioneering developments in home banking technology aimed at putting it ahead of rival services.

The shift from building society to bank was part of a larger migration in the British financial sector. With the Halifax following suit to become the nation's largest bank in June, the pressure is on to attract and retain customers in a highly competitive marketplace.

Customers who remained with converting societies in order to qualify for windfall share allocations now need an incentive to stay with the new bank. UK banks and building societies are engaged in a massive round of mail shots and national advertising campaigns, based around interest rates and aimed at luring these new shareholders away from their old building societies.

Mr Tony Barker, manager of direct financial services at the Alliance & Leicester, thinks the solution to this evolving situation is to take the bank to the customer. "I do a lot of my financial affairs on a Saturday evening," he says.

Mr Barker is responsible for a new, six-month technology trial which the Alliance & Leicester hopes will put it in front of rival banks. Some 2,000 of its customers have agreed to take part in a home banking operation using personal computers to conduct day-to-day transactions.

The vehicle for this service is a system developed by Italy's Olivetti and refined in Denmark where SDC, the clearing banks' data centre, has more than 60,000 customers using the product, named E Bank.

Under a new identity of Olsy, the wholly-owned services arm of Olivetti, E Bank is now being pushed as a cost-effective tool for banks across Europe. Mr Nick Gill, consulting services manager with Olsy UK, explains that while Internet technology provides the communications backbone for E Bank, the delivery mechanism is a closed loop between Alliance & Leicester and its customers.

Mr Gill is admirably relaxed about IT terminology. "It's a virtual private network – or an intranet – call it what you will."

BT provides the E Bank network for the customer, but by acting as an internet service provider (ISP), the bank can guarantee both security and speed of response. Buying in its own capacity means Alliance & Leicester guarantees the bandwidth available for the home banking service, sidestepping common complaints about slow Internet response times.

Security is always cited as a prime consumer objection to personal financial transactions across Internet-related services. Both Alliance & Leicester and Olsy claim to offer an impenetrable level of encryption for signals. It is ironic that this came about, courtesy of US restrictions on the export of algorithms that provide a very high level of signal encryption.

> Alliance & Leicester already has a pedigree in direct banking

Faced with Washington's refusal to authorise the overseas sales of sophisticated coding keys, Olivetti staff in Copenhagen joined forces with SDC to devise an independent level of encryption that Mr Gill claims would take a vast computing resource "an infinite time" to crack.

Users of the £500,000 Alliance & Leicester service need a Windows PC and modem. Mr Gill says both Olsy and the bank decided to allow a broad level of access to E Bank. "Some home banking services are constrained to people using Windows 95, but you can access our service from Windows 3.1."

Mr Barker describes E Bank as primarily PC-based, with the bank's own servers linked into customer databases resident on Tandem and IBM hardware. He is adamant the service will be on offer to all of the bank's 8m customers when the trial is complete.

Alliance & Leicester already has a pedigree in direct banking, and inherited a huge electronic banking infrastructure when it bought the state-operated Girobank in 1990.

Girobank is now Alliance & Leicester's commercial banking arm, processing £73bn in 1996. Its telephone banking service for personal customers was adapted from the Girobank service, which also handles state social security payments on a commercial basis.

Mr Barker says E Bank "is a logical extension of what we do already. We've been in direct banking longer than anybody else in the UK."

The bank will not be taking on any new staff to run the service, since Mr Barker believes today's personnel and systems that handle telephone banking can cope with the move onto home PCs. The £500,000 spend on E Bank is dwarfed by Alliance & Leicester's £15m Branch Equipment Replacement Programme. Known as 'Berp', this will involve installing Compaq PCs, running Olsy software, right across the bank's 338 branches between October 1997 and March 1998.

New flat-screen monitors for teller positions – that allow the display to be rotated in the direction of other staff and customers – are included in the order, as are new laser printers and help-desk services to beef-up staff exploitation of IT.

The idea is to present the most efficient and user-friendly face possible to a customer-base whose loyalty will be tested by fierce interest rate and service competition in a world of newly-demutualised building societies fighting to establish their status as leading banks.

Beyond the positive impression that Alliance & Leicester hopes will be created by Berp, is an emerging policy of trying to push computer processing out of the smaller branch and into local or national hubs. In theory, this should leave staff to concentrate on customer relations.

But the financial sector in the UK has seen big staff cuts as banks try to slash payrolls. In common with its rivals in a turbulent market, Alliance & Leicester is using technology as a part of a larger balancing act, fighting to reduce costs while avoiding alienating customers. And the threat that windfall shareholders may choose to move their accounts is clearly a potent force ∎

NEW-STYLE AUTOMATED TELLER MACHINES • By John Kavanagh

Keeping pace with demands

Self-service customers now expect convenient ATM access, everywhere

NCR's Personas cash machines are small enough to sit on the end of a bar. Other new-style ATMs now offer wider facilities, replicating financial services with touch-sensitive screens, sound, text, graphics and videophones

The biggest operator and marginally the second biggest owner of self-service automated teller machines (ATMs) in the US is not a bank but an IT services group, Electronic Data Systems.

It operates 11,000 machines on behalf of banks and owns 6,000 of these. It is also one of the more imaginative operators: it runs video advertisements of just three to five seconds during the time a machine needs to handle a transaction and print a receipt – and charges advertisers $200 a month per machine. In addition, it has persuaded banks to offer unsecured loans of up to $5,000 through the machines and pay the money instantly – and it gets $20 for each loan granted.

These developments in terms of ownership and customer services provided through ATMs are set to continue as technology keeps pace with change, not only in customers' life styles and expectations but also in the financial services market, where centuries of banking tradition are being shattered by competition from previously unimagined sources, most notably supermarkets.

Indeed, a third of ATMs in the US and 11 per cent in Europe (17 per cent in the UK) are no longer at branches but in other public places, such as airports and shopping centres. The trend is this way: in the UK, nearly a third of new ATMs go to sites away from branches.

These trends are bringing growth of more than 10 per cent a year in the number of machines in Europe, according to Retail Banking Research. In the UK, ATMs accounted for 80 per cent of cash withdrawals last year.

"Consumers are now saying that their bank branch is not necessarily the most convenient place for banking business," says Mr Bob Tramontano, a vice-president at NCR, the world's biggest supplier. "They want access everywhere: where they live, work, shop and play."

People are also prepared to pay for this convenience, through small fees for using ATMs not owned by their own banks. In fact, banks see a business opportunity and even a necessity here: a US study by Forrester Research concludes that such charging will be the main spur for growth in numbers of machines installed away from branches. Forrester says a 50 cent charge halves the number of transactions needed for an ATM to break even and gives banks an opportunity to get at competitors' customers.

Almost 40 per cent of banks interviewed said generating revenue was the main impetus for their future ATM strategy; this was ahead of cost savings (33 per cent). In addition, 11 per cent mentioned the aim of winning new customers and a similar number the opportunity for marketing products.

ATMs also suit banks in their traditional routine activities: transactions through a machine typically take only 30 seconds – and cost four to eight times less than business across the counter. Banks are seeking to close expensive high street sites but still need to offer customers convenience: ATMs are one answer, especially as technology enables them to replicate many of the services of a branch.

Basic facilities just emerging include the recycling of deposits, so that notes entered can be paid out to subsequent customers, reducing the need to refill the machine, with all the cost and security implications.

Image processing of deposited cheques is being considered so that customers can get a printed copy as a confirmed receipt. Mr Tramontano at NCR says people will be able to use ATMs to load cash credits onto electronic cards, exchange national currency for euros, and do other, similar conversions.

Nationwide Building Society in the UK is going further, replicating virtually all branch services with 10 machines combining touch-sensitive screens, sound, text, graphics and videophones. The project enables it to concentrate expert staff in one location instead of trying to provide specialist advice through every branch.

Customers can enquire about mortgages, loans, insurance and savings accounts. They can find out how much mortgage they could get, and the repayments, plus calculations on the return on their savings. There are video clips on the role of solicitors and surveyors in home buying. Personal contact with a human is possible through a videophone link to staff at the head office.

Such facilities are some way off for most financial institutions: the Forrester study shows that more than 80 per cent of transactions in the US are still just cash withdrawals. In Europe, 36 per cent of machines offer no more than this in any case, and only a fifth handle bill payments and just over a third accept deposits and print mini-statements.

Observers say, however, that new competition will force banks to invest in extra self-service facilities, ranging from selling investment products to taking orders and printing theatre and travel tickets, and to continue looking for new ATM sites. Those sites might need to house two machines, one for quick transactions and one for more complex business.

"Banks traditionally had relationships with their customers, but new life styles and the demand for convenience have reduced customer loyalty," says Mr Tramontano at NCR.

Retailers are now entering this market, and they are working hard at relationships and loyalty, too. "They are already good at gathering masses of data on individuals' buying habits – and they have prime locations, he adds in confirmation of Forrester findings that ATMs are becoming an important medium for promoting brand image and winning – and retaining – customers through convenient automated services.

"If banks see a relationship with a customer as just a series of transactions, they can lose the benefit of their strong brand images," he says. "The way loyalty is going right now, banks might just find their customers are switching to doing business with a supermarket."

SOFTWARE CHALLENGES

Obstacles likely to delay launch of global electronic currency

From previous page:

mon interfaces between different products."

Other suppliers are taking the same approach as Coda and using object-oriented design in anticipation of the potential changes to accountancy practice that could result from moves to a global electronic currency.

"In 1993, we completely re-engineered our packages using object technology. Changes such as those for the year 2000 and Emu have made this essential. Future changes in areas such as taxation and accounting for multiple currencies present even more challenges," says Mr John Crooks, UK managing director of Norwegian accountancy software developer, Agresso.

UK accountancy software developer Pegasus Group has also re-engineered its packages – although sales and marketing director Mr Chris Leak does not see a global electronic currency happening for quite some time.

"We have changed the way we construct our software so it can handle change better. But I don't think electronic trading is a technology issue; it is more to do with standards and they are not there yet.

"If you look at electronic data interchange (EDI) for example – we have had it for years, but there are lots of different standards which have slowed its acceptance. We need the banks to accept common standards for electronic trading to really take off."

While standards are the key to global electronic trading – in the same way that they were to the growth of the internet – they are unlikely to evolve by design. Mr Geoff Beeson, a principal consultant at PA Consulting specialising in global payment systems, says there are political and cultural obstacles which will slow progress.

"I can't see a global electronic currency emerging from agreements between countries. If you take Emu as an example – the story goes back to the 1950s and there still isn't agreement between the key players. If you extend this to a global market, it is even more complicated and there are many unanswered questions.

"Who guarantees the electronic currency and how can people be sure it's stable? How does real cash compare to digital cash? Who fixes the exchange rate?"

It will be some time before electronic currency becomes as important as the dollar or the Deutschmark. But at least this time the software industry is thinking about the problem and should not be caught out as it was with year 2000.

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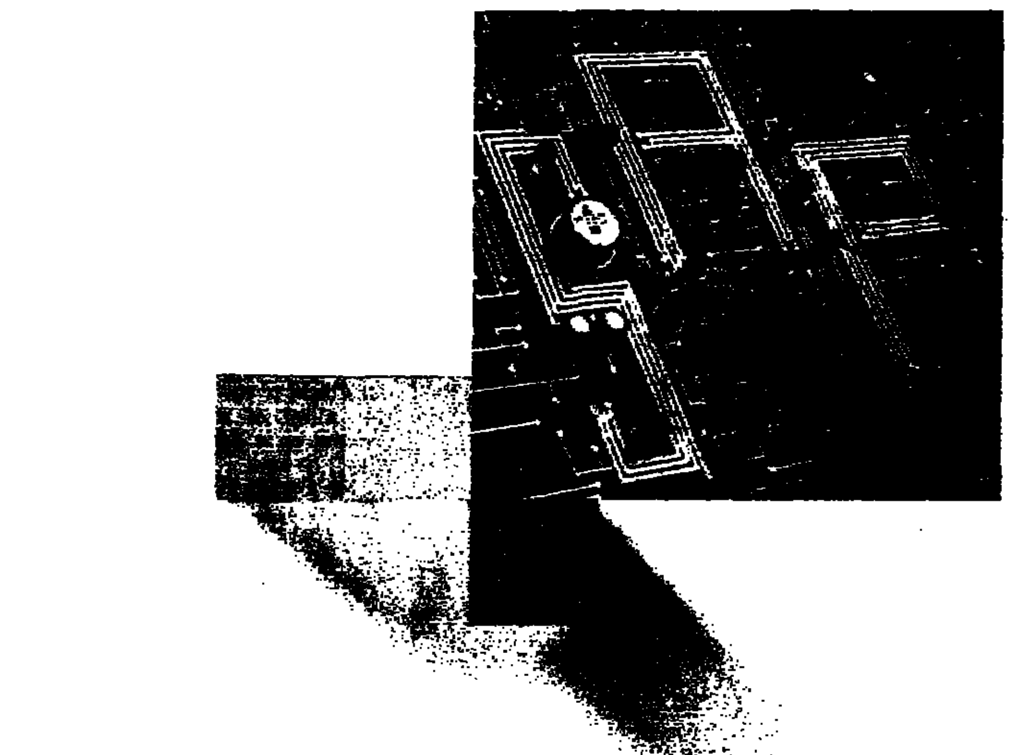

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13

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SOFTWARE APPLICATION: BRITISH AIRWAYS • By Rod Newing

Airline's accounting system brings big benefits worldwide

British Airways' new financial processing system will enhance productivity in 65 overseas offices

In retrospect, selecting mainframe software "was a better decision than we could have known at the time," says Mr Ben Caswell, director of what is called 'the finance change programme'. "Since then, we have adopted a strategy of further centralisation of financial transaction processing, for which it appears completely appropriate."

As part of its continuous focus on cost-efficiency, British Airways Finance wanted to dramatically reduce processing costs and radically increase the quality of its output. The function was putting too much effort into processing and not enough into analysis. Its mainframe-based general ledger system was technically out-of-date and was not year-2000 compliant.

The general ledger chart of accounts had not been changed for at least 20 years and was not used worldwide. "It was a big problem, because it didn't allow us to carry out the financial analysis which we needed," says Mr Caswell.

The decision to implement new general ledger, payables, purchasing and reporting systems was made late in 1994. The airline decided on a mainframe solution because of its centralised finance organisation, the number of users of the system, the transaction volumes and the number of feeder systems which were mainframe-based.

Walker International's Tamaris product was felt to be closest to British Airways' technical architecture. For much of the management and financial reporting, Mr Walker suggested using Essbase, a multi-dimensional database which works in conjunction with spreadsheets and other front-end tools. Its performance can be tuned specifically for information retrieval and access rather than for the transaction processing of the ledger.

At least 150 people were involved in the project which took two years to implement, a timescale that reflects the diversity of requirements in an airline, which is a large and centralised organisation.

British Airways now finds it much easier to access general ledger data. The new systems empower the line business areas to take more ownership of the financial information that the organisation holds. "It assigns clear accountability for the validity of source transactions and provides access to financial information in a style and format managers feel comfortable with so they can understand their financial position," says Mr Caswell.

"They now know what the total amount they spend or receive has been and, for the first time ever, can go through to the source transaction to understand what has given rise to that financial performance," says Mr Caswell. "That allows them to make better-informed decisions and to communicate much more effectively around the organisation when trying to address issues of financial performance.

"This is particularly critical in the airline industry which has relatively low margins, so tight financial management is important."

The project has had a big impact on British Airways as a company because it has provided a framework for centralisation of financial transaction-processing that will result in very significant savings to the organisation.

"The benefits from it far outweigh the costs in terms of direct savings and productivity improvements," says Mr Caswell. "More important are the benefits in terms of the better information it gives to the business people to allow them to manage their financial affairs more effectively.

"We have a target of achieving £1bn pounds of annual running savings by the year 2000," explains Mr Caswell. "The new systems are a key set of tools to identify our progress towards that target and make any necessary changes required to ensure that we achieve it."

Mr Caswell's team is currently investigating in detail how they can roll-out the new system worldwide to the airline's 65 overseas offices. This will allow their transaction-processing to be centralised in the UK. For instance, all invoices would be sent direct to Britain by suppliers. However, paper handling will be eliminated wherever possible by the use of electronic data interchange (EDI), self-billing and assumed receipt.

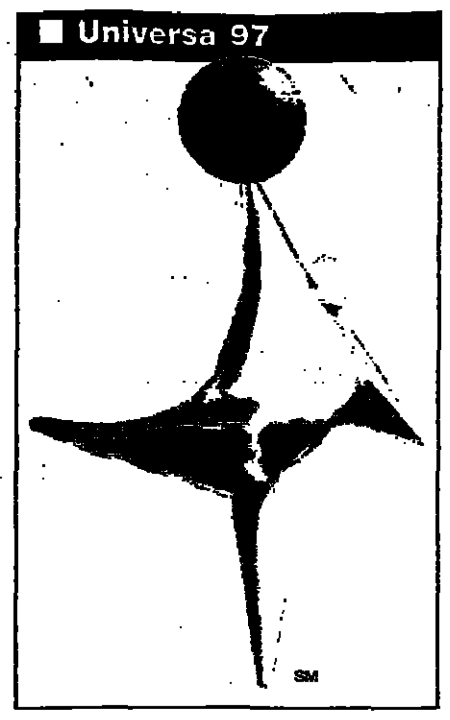
"We set out three years ago to have the most time-efficient, easy-to-operate and control-integrated financial systems and processes in the industry," concludes Mr Derek Stevens, chief financial officer at British Airways.

"The new systems will set us well on our way to achieving this."

British Airways' passengers check in at Heathrow. The airline industry has relatively low margins, so tight financial management is important: the benefits of BA's new software system far outweigh the costs in terms of direct savings

Awards for software and service companies

■ Universa 97



The winners of Universa 97, the pan-European software awards were announced at the Pavilion d'Armenonville in Paris last month.

The event – presented by the Open Group, and sponsored by ICL, SCO and Siemens Nixdorf, in association with the Financial Times and Computing magazine – recognises the achievements of software and service companies in leading and facilitating the practical implementation of open solutions by their clients.

The category winners of the 1997 Open Group Software Awards are:

□ **System software award: Citrix Systems.**

This company has captured a leadership position in the multi-user, application server software market with its thin-client/server approach to enterprise computing. Founded in 1989, Citrix has become one of the fastest growing companies in the US. Its flagship product, WinFrame, enables organisations to achieve 'lower-cost application ownership' through the deployment of business-critical applications over heterogeneous computing environments, without loss of applications performance, data security or administration control.

□ **Information society award: INTOUCH with Health.**

This is a kiosk-based health information service, designed for public use in doctors' surgeries, hospitals, pharmacies and the workplace. Brann, the commercial force behind INTOUCH, is a 720-employee, £40m turnover communications company. The company uses an interactive multimedia development team of 20 specialists and has bases in Cirencester, Bristol and London.

□ **Business application award: Systems Union.**

This is one of the world's top ten suppliers of client/server financial and business software, consultancy and support to mid-market companies and public sector groups. The company has the world's highest number of accountancy solutions implemented on Microsoft SQL Server.

□ **Internet commerce award: Atlas Product International**

API specialises in software and consultancy relating to electronic commerce. The user-base now exceeds 1,500 companies in more than 28 countries. Products are available on a wide range of platforms, thus emphasising the company's commitment to 'open systems'.

□ **Innovation award: Lernout & Hauspie Speech Products.**

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□ **Newcomer award: Techex Communications.**

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Geographical Coverage: International

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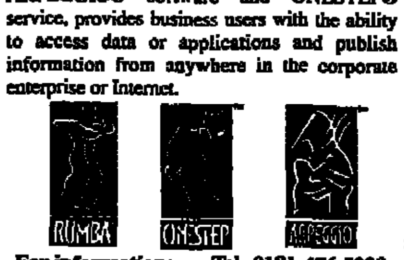

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INTERVIEW • Rod Newing talks to **Tim Berners-Lee,** inventor of the World Wide Web

Internet explosion: the story of a 'slow bang'

When Tim Berners-Lee invented the World Wide Web, there was no great interest. Today, it heralds an era of worldwide electronic commerce

The World Wide Web, the graphical interface layer that has brought about the Internet explosion, was born in total apathy. It was invented by Mr Tim-Berners-Lee, then a programmer/physicist at the European Centre for Nuclear Research (Cern) in 1989. He circulated his proposal, which would dramatically change the world, but received no comments back.

He re-circulated details in May and still received only a few comments, so in September, 1990, his boss, Mr Mike Sendall, suggested: "Why not just go ahead?"

Mr Berners-Lee bought a NeXT computer, produced a Web server and graphical browser and editor and the rest is history.

The problem that Mr Berners-Lee was trying to solve was information loss. "Our computers produced paper information," he explains. "The information was electronically available, but we couldn't get at it."

The documentation system at Cern was diverse and operated on a range of different incompatible computers. Documents could be anywhere on the network, in any format or structure, which frustrated the physicists.

Mr Berners-Lee invented the concept of an abstract 'information space' into which a document would be put. Each document needed a simple identifier that tells a computer where it is to be found. The information space would be populated by lots of different formats.

"Anything can have an identifier, therefore a Web page link can point at anything," says Mr Berners-Lee. "An information space could contain a cheque, shipping list, encyclopaedia or the constitution of the United States."

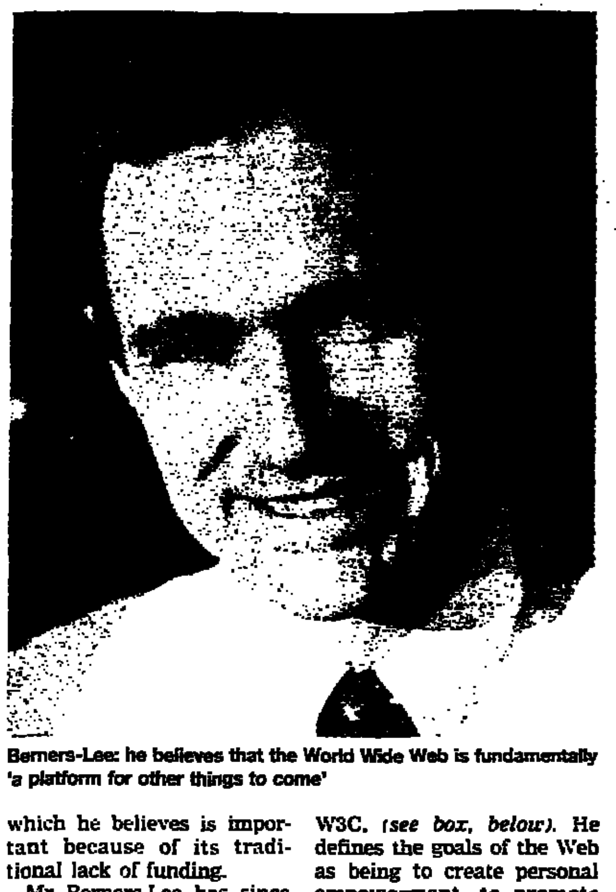
The World Wide Web, known as the Web, consists of a global series of linked pages, which are both information spaces and provide links to other information spaces. The concept, called 'hypertext', had existed before in software help systems, but only within the same document set.

Mr Berners-Lee recognised that putting the Web into the public domain was important and spent 18 months persuading Cern to sign away their rights to his invention. "For it to be widely adopted, it needed to be developed and extended with impunity," he says. "If I had made the Web into a product, it would have been in somebody's interest to make an incompatible version of it."

He points this out without mentioning any names.

Once in the public domain, use of the Web has multiplied by ten each year, in what Mr Berners-Lee describes as a "slow bang". Mr Berners-Lee sees the initial development of the World Wide Web as successively encompassing four separate markets. Web publishing was the first market to take off, creating free public global information, although Mr Berners-Lee points out that it does not have to be free, public or global.

The intranet (private network) market, based on internet technology, is still developing, allowing people to work together in business processes. The electronic commerce market is about to take off and will be followed by education and training, which he believes is important because of its traditional lack of funding.



Berners-Lee: he believes that the World Wide Web is fundamentally 'a platform for other things to come'

Mr Berners-Lee has since left Cern to become the Director of the World Wide Web Consortium, known as W3C, *(see box, below)*. He defines the goals of the Web as being to create personal empowerment, to promote social efficiency, understanding and harmony and to exploit computing power in real life. Asked about the future, Mr Berners-Lee believes that the Web is fundamentally a platform for other things to come, but is vague about what they will be. "If we know what the future is, we aren't looking far enough ahead," he believes.

"The more general the Web, the more powerful and diverse the applications can be, but I don't know exactly what they are going to be. They will be powerful, fast and reliable and will cater for their legal implications. They will be part of society and society will be part of them. We will be able to build whole new worlds, but we must address the type of society we can build in an information space."

Clearly, there is a danger in such a revolutionary change that the Web is bringing about, but Mr Berners-Lee is an optimist. "We are building applications which reflect the values already existing in society," he believes.

"We will upset markets and upset jobs, but we will also create markets and create jobs. We must be mature about how we use it and make sure we continue to hold the values we held before."

His vision is that when the Web is in everybody's home, we will still have a collection of personal neighbourhood services, which we value as we do today. However, we will also have a worldwide electronic directory of products and services, which we will also value. "We can keep our values, but lose the time we spend trailing around for routine shopping and chores," he hopes.

Inspite of the unknown replacement for the Web, W3C is working on some more immediate improvements. The "Web of Trust" will provide the ability to sign a document so that anybody can ask to whom information belongs and what are the licensing terms for using it. This will be important for both electronic commerce and team-working on the Web.

Jointly with CommerceNet, an industry forum for electronic commerce, the Joint Electronic Payment Initiative is standardising 30 different protocols for negotiating payments between banks, organisations and individuals.

"We will need several mechanisms to take account of different transaction types," points out Mr Berners-Lee. "For instance, when you buy a house you do a lot of detailed paperwork, but when you buy a newspaper you throw somebody some change and you don't need to know who they are."

The Personal Privacy Profile will allow Web users to choose how much information they give away when they are connected to a Web site. A new language is being developed which might say "you can have my name and address, but can't give it to anybody else or use it for marketing."

The Web access programme is designed to give access to disabled people, but could also benefit drivers and anybody else who needs to use both hands.

Furthermore, it is encouraging aural style sheets to make it easy for somebody, who cannot read pictures, to follow links. It is also teaching people how to design a form on a Web site that can be filled in by a blind person or by using speech. It will provide a way for a table to explain to a speech synthesising browser how to 'read' it.

Whatever shape the replacement for the Web takes, Mr Berners-Lee is optimistic: "It must have everything we currently live and breath and enjoy!"

Key role for the World Wide Web Consortium

The independent World Wide Web Consortium, commonly known as W3C, was founded in 1994 at Massachusetts Institute of Technology's Laboratory for Computer Science.

It was chosen because, as a former host of the 'X' Consortium, it already had a reputation for neutrality and technical excellence. CERN was involved in the work and the US Department of Defense and the European Commission provided initial funding. Mr Berners-Lee was appointed as its director.

"Big companies were rebuilding themselves around the Web, so we needed a vendor neutral body to push standards forward quickly," explains Mr Berners-Lee. "It is in everybody's interest to get it right and ensure that there are no incompatibilities. Vendors can agree on protocols and compete on speed of implementation, although standardisation often lags deployment by a few months."

W3C has 160 members, which include hardware and software vendors, telecommunications companies, Internet service providers, content providers, cable companies, governments and academic institutions. However, Mr Berners-Lee believes that the richness of the consortium comes from the variety of commercial companies that join it, from industries such as finance, publishing and intellectual property.

"The Web is so important to them that they want a presence at the table where decisions are taken," says Mr Berners-Lee. Membership is predominantly from European and US organisation and starts at $5,000.

The essential nature of the consortium is open and neutral. Membership fees fund staff who facilitate meetings, edit documents, organise events and talk technology. "We have a 'minimalist' design philosophy," explains Mr Berners-Lee. "If we are to get everybody to agree, the standard has to be as small as possible. We have no policing role to enforce standards, but users do that when buying software.

"However, we sit at the boundary between great new ideas coming out of research and their wide-scale deployment."

Further details are available from http://www.w3.org

– Rod Newing

INTERVIEW • Geoffrey Nairn talks to **Jim Barksdale, president of Netscape**

Seasoned veteran in a youthful industry

Netscape's staff have doubled in the past year as its Navigator product has become the most popular browser for accessing the World Wide Web

Even the head of the world's fastest growing software company takes things easy once in a while. Mr Jim Barksdale, president and chief executive officer of Netscape Communications, has recently developed a passion for wine and while Netscape's Californian home may be fertile ground for internet companies, it is not so fertile for grapes – currently there is a shortage.

So Mr Barksdale, who sits on the board of California's renowned Robert Mondovi Winery, last month dropped a gear in his frenetic schedule to spend a leisurely week touring the vineyards of Europe with his three children in a quest for new grapes.

Vacations are a luxury at Netscape, which has grown at breakneck pace and now must move faster still if it is to stay ahead of its competitors, most notably Microsoft. But despite the public image, Mr Barksdale has other interests beyond battling with Microsoft chairman, Mr Bill Gates. His first words during a recent interview were reserved not for Communicator, Netscape's latest web browser, but a new Tuscan red wine, called Luce, whose launch he had just attended in Italy.

"I started this interest in wine one year ago and it makes a change from all those [other] boring boards that I am on," he jokes. Europe may run a gaping deficit in high technology but when it comes to viticulture, the skills and experience of the Old Continent cannot, apparently, be easily be substituted. The same could be said of the 53-year-old Mr Barksdale who has spent nearly two decades running some of most competitive businesses in the US. This is unusual in the internet industry, where experience is typically measured in months rather than decades.

Co-founder

Mr Marc Andreessen, the 24-year-old co-founder of Netscape and its technology whiz kid, was still at junior school when Mr Barksdale was first making his name at Federal Express. He started as chief information officer in 1979, building the company a sophisticated package-tracking system that made FedEx a byword for customer service and efficient logistics – FedEx is today one of Netscape's favourite customers.

In 1983, Mr Barksdale became chief operating officer at Federal Express and boosted revenues from $1bn to $7.7bn by 1991, when he left to become chief executive officer of McCaw Cellular, a major player in cellular telecoms that subsequently merged into AT&T Wireless Services.

It is rare for the head of an IT company to have such broad-based experience and Mr Barksdale believes this gives him an advantage

Barksdale: 'This business is subject to rapid evolution and that's what makes it more exciting'

when talking to customers. "I have bought and integrated more business software than any other chief executive officer in the business and I understand the need [for it] to show a real return on investment " he says.

In January 1995, he surprised the world by abandoning the high-profile job of chief executive officer at AT&T Wireless Services for Netscape, then a little-known startup trying to market a web browser that Mr Andreessen had developed as a student at the University of Illinois.

In the 30 months that have since elapsed, the internet has taken off and Netscape with it. The company has grown like topsy – its payroll has doubled to 2,200 people in the past year – and its Navigator product has become the most popular browser for accessing the web. Investors eager to climb aboard the internet bandwagon pushed Netscape's stock to stratospheric ratings after the initial public offering in 1995.

But in mid-1997, investor frenzy has cooled somewhat as Netscape comes under increasing competition from Microsoft. Last week, Netscape's stock was 45 per cent lower than a year ago, even though the company's latest quarterly financial results show revenue of $120m, a 120 per cent increase from a year earlier.

In sharp contrast, Microsoft's share price was 118 per cent higher over the year."Our share price is now more realistic," says Mr Barksdale, who will not forecast future performance but admits Netscape's growth will inevitably slow in the future.

At the beginning of this year, analyst firm Jupiter Communications estimated Netscape's share of the browser market at 59 percent, with Microsoft's rival Internet Explorer taking 31 percent. By the end of 1997, Microsoft will take the lead with a 52 per cent share against Netscape's 38 per cent, Jupiter predicts.

"They [Microsoft] are not going to get that share," counters Mr Barksdale. "But even if they do and we get a third of the market we will still be the fastest growing software company." The "browser wars" between Microsoft and Netscape dominated the headlines last year, but Mr Barksdale is clearly irritated when Netscape is described as simply a browser company.

Last year, about half of Netscape's revenues came from sales of its Navigator browser with the rest coming from server products aimed at corporate intranets. The browser's share will drop even further and Mr Barksdale aims for an ideal revenue mix of one third from browsers, a third from server software and a third from services.

Unlike Microsoft, which decided early on to give away Internet Explorer, Netscape has stuck to its policy of charging businesses for its browser – though consumers can download a free version without support or upgrades.

Netscape Communicator, the successor product to Navigator launched last month, includes new features aimed at corporate intranet users and costs $49.

Mr Barksdale defends the decision to charge for browsers. "Today, Microsoft has a third or less of the [browser] market even though they gave away the software," he says. "Communicator costs just $49 whereas you can spend $4,000 on the PC. What most corporate buyers do not want to spend money on is upgrading the underlying platform."

The latter remark is a criticism of Microsoft's plans to tie its Internet Explorer browser into its Windows operating system with a product called "Active Desktop". This would oblige corporate users to upgrade to the latest version of Windows to keep up with Microsoft's browser technology, Barksdale claims.

Contrast

Netscape has long emphasised that its browsers run on different computers and the new Communicator product is being released in versions to run on Windows, Macintosh and Unix computers.

Microsoft, by contrast, concentrates Internet Explorer development on its Windows 95 operating system. Mr Barksdale sees Netscape's future focussed firmly on corporate intranets.

"Before anyone had even heard of the company, Netscape's original business plan contained this vision of the internet for enterprises," he says. "Now, 80 per cent of our revenues come from business and 95 of the top 100 US firms already do business with Navigator."

But corporate intranets are also a target market for Microsoft, which has the advantage that most corporate PCs already run Microsoft software. Mr Barksdale is thus working hard to win businesses over to Netscape's intranet strategy and he boasts of the 100 large firms that this year signed up to use its new Communicator and SuiteSpot server software before the products were ready to ship.

Mr Barksdale at 53 is a seasoned veteran in the youthful internet industry and, despite the frenetic pace, he says he has no plans to retire. His mentor is Mr Ray Noorda who founded the networking company Novell, aged 58.

"This business is subject to rapid evolution and that's what makes it more exciting. I'll stay as long as I bring a certain value to the company."

UNIVERSA 97

This year's award winners

Continued from previous page:

□ **User award:**
Telia of Sweden.

Telia, which has the largest share of both analogue and digital telephone network subscribers in Sweden, regards its internet-enabled SAS data warehouse application, called BOSS (Business Operational Support System) as a strategic resource in maintaining its market position. Sweden's mobile telephone network has the highest density rate in the world.

□ **Special industry award:**
James Gosling.

Mr Gosling, a vice president and Fellow at Sun Microsystems, has been the lead engineer for the Java/Hot Java system. His early activity was as lead engineer of the NeWS window system.

Mr Gosling graduated from Calgary University, Canada, in 1977, and received a PhD in computer science from Carnegie-Mellon University in 1983. He has built satellite data acquisition systems, a multiprocessor version of Unix, several compilers, mail systems and window managers. Mr Gosling has also built a WYSIWYG text editor, and a text editor called Emacs for Unix systems.

The 1997 awards

Highly commended companies in the business software category were Gradient Technologies, a leading supplier of security solutions for the enterprise; and OpenVision VERITAS, the data storage management company.

Also commended were Algorithmics Incorporated, the Toronto-based supplier of enterprise-wide financial risk management software; and Atlas Products International, specialist in electronic commerce, (business applications); Cherwell Scientific Publishing, developer of award-winning scientific software; and Graham Technology, supplier of the business server technology, GT-X, (innovation category); Dascom, founded in 1994 and a developer of authorisation and management software, (newcomer category); and Leading Bits, founded in 1993, a market leader for software for the advertising industry.

Mr Paul Taylor, IT correspondent of the Financial Times served on the Universa awards jury. Mr Peter Martin, editor of the international edition of the Financial Times, represented the FT at the Paris awards.

For more details of the awards, contact Christine Mambourg or Marie-France Serruys at:
The Open Group, 15 Avenue des Pléiades, 1200 Brussels, Belgium.
tel: 32 2 772 88 88; fax: 32 2 772 93 28;
e-mail: mf.serruys@opengroup.org

– Michael Wiltshire

INTERVIEW • Lars Nyberg talks to Paul Taylor

NCR shifts towards high value software

From Page Two:

the bank. Some banks will have one or two people in that virtual branch, some will have none. We think that as a consumer you don't want to hear about your bank reducing its branches, you actually want them to increase their 'points of sale'. We can increase the number of points of sales for the bank at a significantly lower cost – that is a virtual branch."

Meanwhile, NCR is gearing up to exploit the shift towards electronic commerce. "We have decided it is not a threat for this company," says Mr Nyberg.

Even if electronic cash and smart card technology could eventually eat into the group's traditional ATM business, he argues that this won't happen overnight, if it happens at all. More importantly he believes the shift to electronic commerce will require the deployment of a huge new retail infrastructure to handle smartcard payments. "You also have to be able to download cash to your smartcard," he points out, "that is also an infrastructure issue a huge business opportunity.

"We have said we want to be the supplier to the banks to distribute their services in different channels, whatever those channels are. We provide branch automation, we provide self service, we provide telephone banking to the branches today and if the banks are going in that direction we have to be there and provide that infrastructure.

But Mr Nyberg, who pulled the plug on NCR's attempt to become a high volume PC manufacturer, is equally convinced that NCR should not waste its R&D dollars on 'commodity items' which it can buy-in. "It's important we spend our R&D money on things customers really perceive as adding value because then we get the higher margins we need to pay the cost structure we have.

"I think NCR in the computer business has been a box shifter," he says. "Now we want to move this company to higher added-value because the margins are bigger; second, it's a less volatile business; and third, it fits most of the people in this company. I want to go higher up the added-value ladder.

Solutions

"I want to understand the business problems of customers and deploy the technology we master here to at least provide them with one solution to their business problem."

Reflecting this shift away from hardware and towards higher value software, NCR has been investing heavily in the future in Teradata.

If there is one technology that is going to have a profound impact on this company it is this database technology, he says. Aside from porting Teradata to NT, NCR is also adding multimedia functionality and expanding scaleability, convinced that this is what its big data warehousing customers such as Walmart, the world's largest retail group, will require.

"We are the only company that can provide fully scaleable working data-warehouses," he adds.

"There are a number of data warehouses that have not been successful, but I'm convinced that if you're in a business with hundreds of thousands or maybe millions of consumers as your customers and you don't master that technology, you are going to be at a significant disadvantage.

"If you talk to the more progressive retailers and banks they will tell you that image, marketing on a segment of one, knowing your consumer are the real differentiators between bank A, B or C."

Mr Nyberg also acknowledges that staying ahead of competitors in the data warehousing market is the biggest technology challenge facing NCR.

"It's a fiercely competitive environment. There are some very formidable competitors, such as Oracle and IBM, and we are going to see much tougher competition going forwards, but the market is exploding, so there is room for more than just NCR. We can't assume we 'own' this place, but I prefer to have 20 per cent of something that is much bigger, than 35 per cent of something that is a tenth the size."

FINANCIAL RISK MANAGEMENT • By Michael Dempsey

New ways to reduce hazards

Intricate software systems help monitor credit risk exposure

Risk management is an intimidating subject. The diverse approaches adopted to computer programs that handle risk reflects a degree of uncertainty in the financial markets. Some institutions hold to the belief that risk is too closely married to their individual business for an external IT package to cover it. Others opt to buy software off-the-shelf.

A third way is to go for a joint development, which is how Deutsche Morgan Grenfell has acquired its Global Integrated Rating System, GIRS.

DMG turned to the City of London IT consultancy, CWB, which prides itself in working hand-in-glove with financial groups in their need for GIRS. Mr Mark Swann, director of CWB's software solutions group, cheerfully admits that credit risk, with many policies and *netting agreements, is a* tough subject. "Credit risk for emerging markets is a nightmare," he says.

Mr Swann's approach was to unify counter-party information from several databases, using Microsoft's NT environment to handle the front-end of GIRS, while the heavyweight Unix operating system sits behind the easily accessible front screen.

He claims that the rating system can use database software from any leading supplier and is an infinitely flexible package: "GIRS can pull-in electronic information from global vendors and use that to calculate how credit-worthy the counterparty is – yes, you *do* have credit rating agencies, but they only rate 7,000 to 10,000 companies. Each data vendor delivers material in different formats and we capture it."

The heart of this eight-month £1m project is an algorithm that takes financial information and identifies which pieces are important to calculate a credit score, applying weightings depending on geographic location, industry sector and *other factors.*

Mr Swann is keen to underline that this software does not claim to be part of the exotic world of artificial intelligence. "Our software is smart enough to match information," he says. "The theory of string-matching is at work here: it involved taking lines of words and searching for similarities among them, seeking a percentage match."

Hot topic

CWB, which has 85 staff, says credit risk is a hot topic – and packaged software is in short supply.

"We believe the package market doesn't exist yet. There is a need to make flexible software," says Mr Swann, who thinks GIRS fills the gap. "It's a big piece of 'Lego': people may not want all of it, but we offer a fast-track solution, supporting an area that has previously been handled in a fairly manual way, using spreadsheets."

Part of the motive for DMG embracing GIRS is market globalisation. This applies right across financial *services. Project Zurich, a* risk management program for the insurance market, has been devised by $650m software house, SAS, and the Zurich office of the management consultants, McKinsey.

Zurich staff use statistical tools to model volatility and generate an overview of risk in any chosen environment. Users write a lot of the system themselves using the core database engine devised by SAS. But commercially popular large databases should be happy feeding into a Zurich type application which costs around $65,000 per desktop.

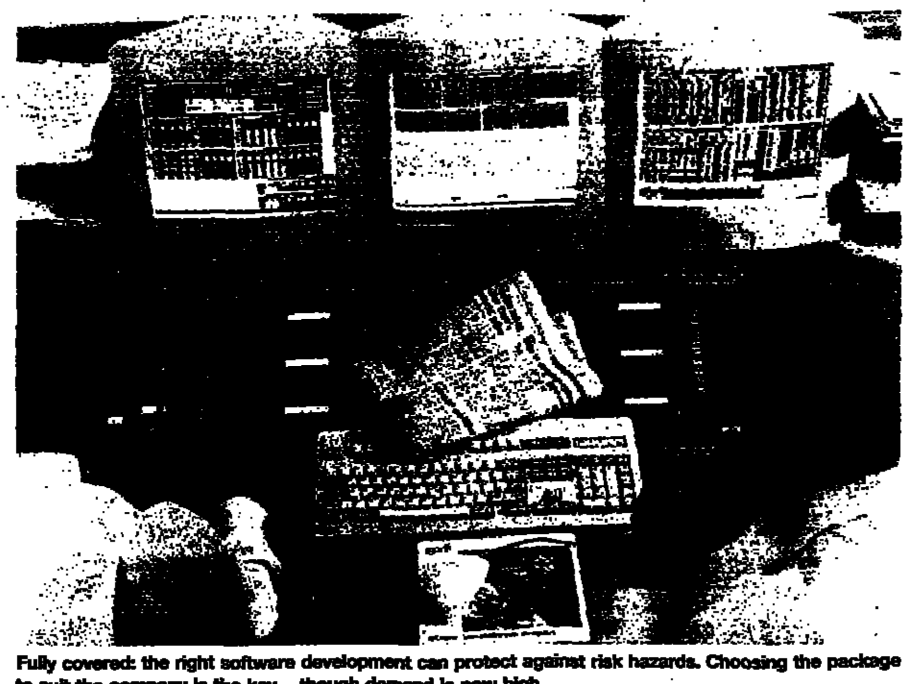
At the markets division of BZW in London, Mr Bob Mainprice, chief credit officer, has turned to a commercial database, Sybase, to address the demand for risk management. The result, Global Exposure Management System (Gems), offers a set of links into existing trading systems and was written in conjunction with Sybase staff.

"The hardest part is getting all the data into one place," says Mr Mainprice. "Sybase devised a global database of the transactions *we're executing."*

BZW parted with around £2m to put Gems together, but Mr Mainprice thinks this made economic sense.

"It's paying for itself, having spent the money and got the data in, we can apply Gems to other products. I know a lot of other institutions that have similar problems and the market is demanding more and more global risk management."

The City has recently hosted the launch of Market Risk, a Windows NT product from Financial Objects. This captures data from various sources so dealers can use it: the first user in an institution pays £40,000 then £2,000 per subsequent user. Developed with Yamaichi Bank in London, the idea is to ensure a program of general market relevance using risk metrics from JP Morgan.



Fully covered: the right software development can protect against risk hazards. Choosing the package to suit the company is the key – though demand is now high

Pressures

Mr Hal Hovland has been designing IT systems for the City since 1981. As the author of Market Risk, he explains that "ease-of-use is everything to this community – these guys are very *busy, they don't need to* learn a new system to get the benefit of Market Risk. They just master a dozen or so commands and icons characterising cash flows or values at risk".

Market Risk generates a risk calculation as the day's business progresses, rather than letting traders wait until the next day to learn their full exposure.

Running under Windows NT, this software represents *the 'mass market end' of* risk software.

But specialised applications still have a healthy future. Anvil, a £1m software house closely allied to the City, has just notched up its first sale of its Repo Trading System. Costing up to £500,000 per license this is an extremely intricate program that can take trading data on board as the repo deals are set up.

Securities trading in this *environment demands* vigorous position-keeping and monitoring of risk exposure. ABN Amro chose to work with Anvil, rather than developing a bespoke package.

Mr Lawrie Ellis, Anvil sales director, claims his company has met ABN Amro's key criteria: "You still find traders in the repo market using pieces of paper. We offered the ability to enter trades online. They didn't want their dealers wasting time on a keyboard."

SMARTCARDS • By Paul Taylor

Asia-Pacific market set to become the pace-setter

The next generation of highly intelligent, multi-function smartcards could power electronic commerce and provide the transport mechanism for a wide range of new applications

The *worldwide market* for smartcards – plastic cards with tiny microprocessors and memory built into them – is entering a new phase. Trials in many countries around the world are over and, as the market matures and large-scale deployment begins, new alliances and partnerships are being formed.

In the process, market leaders in both the manufacture of the semiconductor devices powering smartcards, and the smartcards themselves are emerging alongside new and innovative applications.

For example, Schumberger has consolidated its position *as one of the leading smart* card suppliers through its acquisition of Soliac, the third largest manufacturer. That purchase positions Schumberger as the main competitor for Gemplus, the market leader in 1996.

Meanwhile, among the semiconductor vendors, Motorola underscored its commitment to the market in March by forming a dedicated smartcard business unit and announcing that it will enter the global smartcard market, "as a total solutions provider, actively competing in what is expected to be a premier high-growth industry into the twenty-first century."

Such moves are being *driven by the dramatic* growth forecasts for the emerging smartcard industry. Forecasts for the size of the smartcard market vary dramatically, partly reflecting differing definitions of smartcards themselves. *However all analysts agree that the market is* growing rapidly, perhaps by between 30 and 40 per cent a year.

For example, Dataquest, the IT research group, predicts that the overall market for memory and microprocessor-based cards will grow from 544m units in 1995 to 3.4m units by 2001. Of that figure, microprocessor-based smartcards, which accounted for only 84m units in 1995, will grow to 1.2bn units four years from now.

"Until the year 2000, growth in the number of smart cards due to buoyant demand throughout the whole range of applications will more than compensate for the decline in prices, *brought along by competi*tion, economies of scale and technological progress in all areas of smartcard production," notes Datamonitor, another market research firm.

So far, during the 1990s the high growth of the world smartcard market has mostly been driven by low value memory cards used for example, in pay telephones. However, microcontroller-based smartcards are expected to grow at a much faster rate over the next four years, according to Intex Management Services, a UK-based research firm.

"Europe is currently estimated to be the largest region for smartcard with end users industries such as payphones accounting for the major portion of unit shipments," said a report on the worldwide market for smartcards and semiconductors in smartcards published by IMS in February.

IMS predicts that the European smartcard market will grow at a relatively modest compound annual growth rate of just under 17 per cent over the period to 2001 driven by end-user applications such as banking and digital mobile communi*cations.*

Both America and the Asia Pacific regions are forecast to grow at a faster rate. IMS predicts that the Asia pacific region in particular will become the largest smartcard market accounting for 38.1 per cent of all smartcard shipments by 2001 followed closely by Europe with the US, which has lagged in smartcard take-up, remaining the smallest market.

Most analysts also expect further consolidation among the main smartcard suppliers following the merger of Schlumberger and Soliac. Among the semiconductor suppliers, Siemens, Motorola and SGS Thomson remain *the main suppliers*, each with market shares of over 25 per cent.

However the strong projected demand for smartcard semiconductorshas encouraged a host of other smaller

> Europe is ahead of the US as today's main user area for smartcards

suppliers including Texas Instruments and Philips, and Japanese suppliers including Hitachi, Toshiba and Sharp to enter the market.

"Although some standards issues, infrastructure issues and software issues remain to be resolved, chip cards hold the promise of being one of the world's highest volume markets for semiconductors," said Mr Jonathan *Cassell, an industry consul*tant with Dataquest. "They can perform the duties of pocket change, paper money and debit and credit cards, acting as a means of identification, access or payment."

According to Datamonitor, *the market will* grow by an average of 35 per cent from $320m to reach $1.1bn by the end of the decade. Within this segment, microcontrollers will increase their market share to almost 60 per cent, while intelligent memory chips will become commodity items and will command less than a 20 per cent market share reflecting falling prices.

Among the main suppliers Motorola has focused to date *on micro-controller chips*, while SGS Thomson is a strong supplier of phone card applications and leads the Eprom segment. Siemens has specialised in intelligent Eeprom based memory chips that are also used for phone cards, and high-end crypto-controllers.

Motorola's decision to set up a dedicated smartcard unit is expected accelerate the move towards open systems standards and the *next generation of* combination and contactless multi-application cards.

"Our decision to provide a total solution to the smartcard market comes at a very crucial time in this industry's development," said Mr Christopher Galvin, Motorola's chief executive. "We believe consumers are going to demand more functionality, higher standards of security *and greater ease of use* from their smartcards."

The US electronics group said it plans to drive open industry standards and develop new card and terminal operating systems, application programming interfaces and developers' tools with the aim of shortening the time required for third-party developers to create smartcard software and load new applications on to existing smartcards.

Most current smartcards, such as those deployed throughout the French banking system that pioneered their use along with Groupe Bull, send and receive data by being placed in a terminal reader. These readers *can be connected to a point-*of-sale terminal, installed in automated teller machines or built into portable computers, network computers or set-top boxes.

Over the past 18 months, contactless smartcards have begun to appear. These use radio signals to transmit data and are able to exchange data without actually coming into a physical contact with a terminal. Contactless smartcards are expected to be used for rapid transit fare collection and access control, both applications which require fast transaction times.

For example, wireless smart cards supplied by Philips are being used in Seoul, Korea, where about 800,000 daily riders of 8,700 buses pay for their trips using the cards. Such cards are about twice as expensive as regular smart cards but in key applications, the extra cost pays for itself in the conve*nience and other savings it* offers.

However the next generation of smartcards is expected to be combination cards providing both contacted and contactless methods for data transfer for maximum *flexibility and multiple appli*cations. For example, although smartcards are most usually thought of as a convenient replacement for cash, they are rapidly evolving into a much more useful technology.

Among the emerging uses for smartcards are as 'portable databases' storing an owner's medical data. They can also be used to execute sophisticated security schemes, store a record of *cash transactions, or func*tion as a loyalty card giving retailers better feedback on customer spending habits.

From a relatively humble beginning as single function bank or telephone cards, the next generation of highly intelligent, multi-function smartcards could power electronic commerce, provide the transport mechanism for a wide range of new applications and finally enable consumers to swap wallets full of credit cards and identity papers for a single, convenient piece of plastic containing an embedded microchip.

Keeping the customers happy: First Direct's call centre at Stourton, Leeds. The latest generation of call centres help to achieve enhanced 'relationship building' by allowing financial institutions to automatically identify key clients

CALL CENTRES • By Geoffrey Nairn

A vital role in customer services

In their bitter battle for market share, retail financial institutions have placed call centres firmly at the forefront of their strategies to improve customer service while reducing costs. The internet may one day become a mainstream banking channel, but until that day arrives, banks and insurance companies see the humble telephone as the most cost-effective way of expanding delivery channels, improving service and winning new customers.

"There is much interest in internet banking, but you should not forget that many more people have a phone than an internet connection," says Thierry Scellef, a Madrid-based consultant *with Anglo-French IT ser*vices company Sema. The firm has helped set up call centre services for the French direct banking service Banque Directe, part of the Paribas group, and several large Spanish banks *including Banco Central His*pano and Caja de Madrid.

Spain's smaller banks are just as keen as their bigger sisters to set up phone banking operations. Sema has also developed services for Ceca, a confederation of 50 small savings banks and Cajas Rurales, which groups 79 rural banks. The aim is to allow these smaller participants to pool their call centre operations and so share the costs and overheads.

The price tag of a call centre can run to several million dollars but the savings in operational costs it produces can pay for the investment in just four months, according to a report by the UK-based consultancy firm, Ovum.

In the worse case, the payback time is 19 months. "However, the decision to build a call centre should never be a purely financial issue," says Mr David Bradshaw, senior consultant at Ovum, who sees customer service improvement as the most important reason for considering a call centre.

Indeed, many financial institutions, after initially turning to call centres to unload low-margin activities from their branch networks, such as balance consultations and funds transfers, are discovering that the telephone can be used to open up many new opportunities.

Halifax, the UK bank, set up a call centre in 1995 to service the current account customers of Halifax Direct, its new telephone banking division, as well as to generate new business for the company. The volume of business created by Halifax Direct in its first year far exceeded forecasts and calls rocketed from 42,000 in the first month to over half a million a year later.

To help its 400 agents answer the calls, the bank turned to a software product called CBR2 supplied by US firm Inference. CBR2 uses a technique called case-based reasoning to allow agents to follow a sophisticated *"script" when a customer* calls. It is based on an expert systems engine which accumulates knowledge by analysing examples of questions and answers and stores that knowledge in the form of a "case base". CBR2 allows its 400 agents to answers calls in an average of 2.5 minutes, which the bank claims is up to 30 percent faster than other systems.

This is important as direct banking operations usually *have a freephone number* and so the bank has to pay for the calls. Also, quicker handling allows the agents to handle more calls, so increasing productivity.

CBR2 has become a principal component of the Halifax Direct call centre and has been used for nine different products or services, including an insurance emergency line and a tax advice service.

The real test of fire for the call centre has come during the past few months when the bank had to set up a hotline to handle queries

Continued on back page

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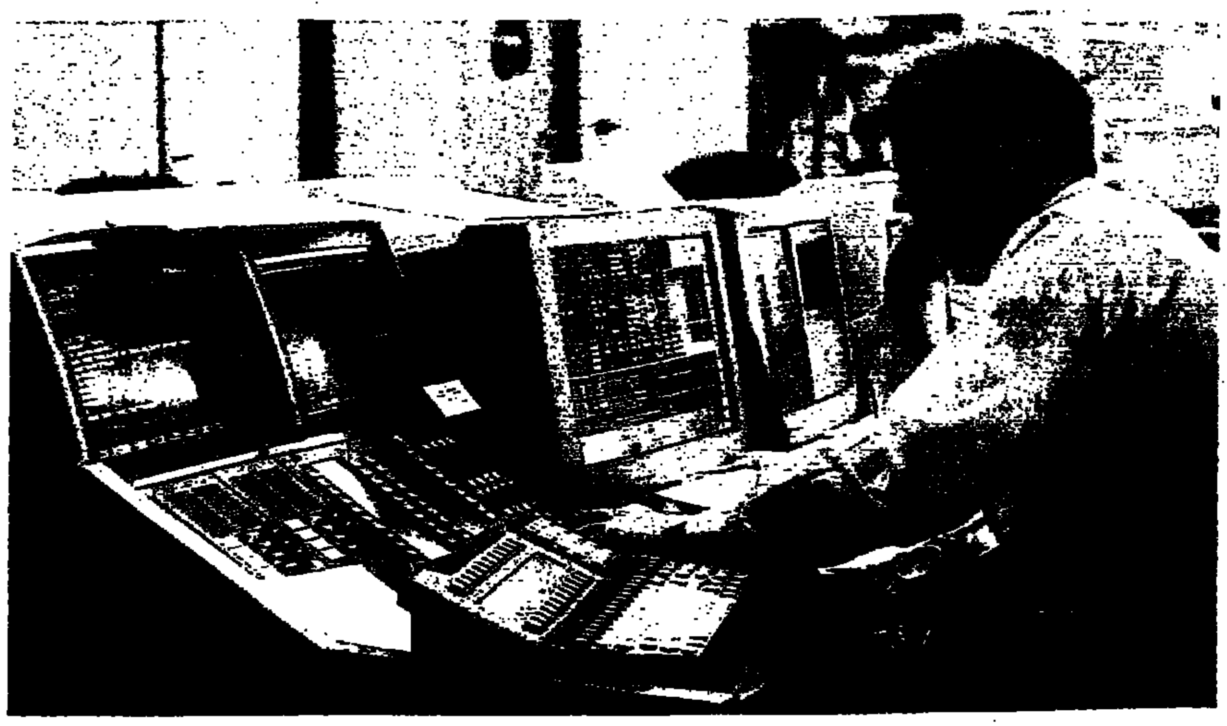
DEALING ROOMS • By Michael Dempsey

Trend-setters of the financial world

The sums being spent on high tech dealing room systems dwarf the budgets for information technology in other sectors of finance



Ross Norman, a trader in gold, silver and precious metals, working on a Syntegra front office system in London. The system enables dealers to access and manipulate information from a multitude of sources through a single state-of-the-art terminal

The market for dealing room technology has been in flux for more than a decade. Ever since the 1980s, spectacular 'big ticket' projects have challenged IT suppliers and allowed the customers to draw attention to the status of their institution. New themes emerge regularly, and the scale of the larger deals guarantees energetic selling by the IT industry.

Some approaches *do* settle down long enough to become an international standard. The digitalisation of information feeds, allowing users to mix-and-match data from different sources, was still a live issue during the early 1990s. Today, 'the digital feed' is here to stay. But other trends are trying to gain respectability and shake off their voguish tag.

EDS project

The US computer services giant, EDS, is now involved in a massive contract to configure dealing floors for JP Morgan in New York. JP Morgan pays EDS $10m every year for its services. Mr Peter Lowes, managing director for the company's capital market services, says demand is focused around cost-cutting on hardware allied to new attitudes to application development.

"We're seeing dramatic cost-reductions: people are opting for a powerful PC instead of a Sun workstation," he says. But it isn't all bad news for Sun, with its Java programming language intended to speed up the development of very specific computer programs.

"Java-type stuff is popular for sets of applications," he says – and concedes that Java can dramatically reduce the time needed to create an application.

JP Morgan Securities in New York has turned to Java, with its pre-written chunks of code, to create 'push' technology, says Mr Lowes. Push is the latest piece of IT jargon, and it refers to the process of pushing out information to a recipient while pulling the actual computing work away from the end-user's environment.

The idea is to employ predetermined rules to channel market data to those dealers who require it. If it works, it should reduce the demand for processing power on the desktop, which could mean big savings on a dealing floor where hundreds of highly-paid staff need their own screens. "They are taking their computing capacity and pushing it back into the server environment," says Mr Lowes.

BZW project

Meanwhile, in London's Docklands, BZW is hogging the limelight with a mammoth relocation project. The plan is to create a model trading environment at a new site east of the City in the Canary Wharf development.

Dealing desk of the future: in terms of space-saving alone, liquid crystal displays (LCD) provide valuable benefits over traditional cathode ray tube (CRT) monitors. Pictured here is a new Microvitec's dealing room desk, designed for BT

While the bank is coy about exact pricing, BZW is believed to be spending at least £100m on IT at the Canary Wharf site alone. Two massive dealing rooms have been built 700 dealers. The entire operation will swallow up 5,700 Compaq Professional workstations with 1,200 flat screens. Flat screen technology produces a display that is just an inch wide.

Mr Vince Chandler, a former IT manager at the Bank of England, is global chief of equities IT for BZW. He explains that this vast undertaking and its enormous budget are still driven by firm notions of economy.

"The flat screen reduces the depth of a desk by 35 per cent and increases the density of trading desks by 20 per cent, so you get to cut your costs on square feet. And flat screens don't demand anywhere near as much power as conventional ones. So if they're not chucking out as much heat, you save money on air conditioning."

The move to Canary Wharf will cut costs further, by consolidating operations from five buildings into one site in an area where rents are cheaper. And Mr Chandler thinks his bank has the right idea about acquiring hardware: "We're leasing the 5,700 Compaq workstations instead of buying them outright. The lease will run over what I would say is an aggressively short timeframe, 12 to 15 months."

BZW is not saying that these boxes will be obsolete when the lease is up, but it needs an option to replace them with whatever the IT manufacturers are offering at the end of 1998. With a three-year guarantee, the machines will represent a good buy for whatever third party takes them off BZW's hands.

Competitive pressures are behind this ambitious undertaking, says Mr Chandler. The thought of rival institutions going for radical IT solutions has encouraged BZW planners to burn the midnight oil: the management of networks and systems within the Canary Wharf site will also be automated in order to head off technical problems before they effect trading performance. "We'll use monitoring software the way a computer in a car watches the oil level," adds Mr Chandler.

BZW is standardising on Microsoft Office and the Windows NT desktop environment. Mr Chandler and his colleagues are studying the potential of Java, but do not want to become dependent on any technology that has not fully proved its potential, preferably at some other bank willing to act as guinea pig.

The markets arm of BZW moved into the new site at the end of April, and equities will begin operations there at the end of August.

Canary Wharf will act as a template for a grandly titled 'global technology infrastructure'. This means that barring any big disasters, the London site will be mirrored across the world – BZW staff in Hong Kong, Kuala Lumpur, Taipei and Milan are already working with this model.

Facilities

Guardian DR, a company specialising in providing standby facilities for City firms that need to continue running in the face of disasters such as fire, flood or terrorist attack, is constantly adding to the facilities on offer at its emergency sites. It will spend £1m upgrading the dealing desks at a central London site this year. Mr Roland Mann, director of City markets at Guardian, says his business has to reflect the current tastes of London-based clients. "Sun is losing out to NT – our view is that people will continue to want large NT workstations with wide screens."

The sums being spent on dealing room systems dwarf IT budgets in other sectors: the high tech dealing room is important to each bank's identity.

But it is such a functional item that the customer cannot afford to get it wrong. For this reason alone, dealing room systems are well worth scrutinising. The attitude of BZW or the policy of JP Morgan can teach a lot to IT purchasers with rather smaller corporate pockets.

A key role for financial call centres

From previous page:

from 7.6m potential shareholders during the run-up to its flotation on the London Stock Exchange. Many customers of the former building society hold a variety of old-fashioned savings accounts and have called to find out if they are eligible for shares.

"You cannot train call centre operators to cover all the permutations, particularly in the case of the Halifax," says Mr Phil Padfield, European vice president at Inference.

The CBR2 program has been used to draw up scripts to answer callers' questions about the flotation and also to turn a simple query into a selling opportunity. "Those who call are well-disposed to listen, so the customer service person can ask if they are interested in other products," he says. "Most banks see call centres as simply a means of conducting a transaction, but customers can also have a relationship with a call centre."

The latest generation of call centre products aim to achieve this "relationship building" by, for example, allowing banks to automatically identify their most prized customers when they call and give them preferential treatment – routing them to a specific human operator, rather than the next available one or a computer voice. Less-prized customers will first be filtered through an interactive voice response unit that asks them questions which they answer using a touch tone telephone or by voice. Low-value operations, such as balance enquiries, can thus be routed to a computer. "Banks want to be able to differentiate between different customers and do not want to use a human operator on low-value customers," says Mr Bob Summerfield, marketing manager for call centres with Tandem Computers.

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